

**Modeling and Analyzing the Effects of Operating
Constraints on Pricing Signals in the Competitive
Electricity Market**

by

Chaminda Amarasinghe

A dissertation submitted to the Faculty of Graduate Studies in partial
fulfillment of the requirements for the degree of
Doctor of Philosophy

The Department of Electrical and Computer Engineering

The University of Manitoba

Winnipeg, Manitoba, Canada

© December 2007

THE UNIVERSITY OF MANITOBA
FACULTY OF GRADUATE STUDIES

COPYRIGHT PERMISSION

**Modeling and Analyzing the Effects of Operating Constraints on Pricing
Signals in the Competitive Electricity Market**

BY

Chaminda Amarasinghe

**A Thesis/Practicum submitted to the Faculty of Graduate Studies of The University of
Manitoba in partial fulfillment of the requirement of the degree**

Of

Doctor of Philosophy

Chaminda Amarasinghe© 2008

**Permission has been granted to the University of Manitoba Libraries to lend a copy of this
thesis/practicum, to Library and Archives Canada (LAC) to lend a copy of this thesis/practicum,
and to LAC's agent (UMI/ProQuest) to microfilm, sell copies and to publish an abstract of this
thesis/practicum.**

**This reproduction or copy of this thesis has been made available by authority of the copyright
owner solely for the purpose of private study and research, and may only be reproduced and copied
as permitted by copyright laws or with express written authorization from the copyright owner.**

To my parents

Acknowledgements

I would like to express my deep appreciation and gratitude to Dr. Udaya Annakkage for his continuous advice, guidance and encouragement throughout the research work. It has always been a pleasure working under his guidance. I greatly appreciate the advice and assistance received from Dr. Ani Gole. I am also grateful to Dr. Alan Wang of Manitoba HVDC Research Center for useful inputs. I must also thank the technical staff at the Department of Electrical and Computer Engineering, especially Mr. Erwin Dirks for his support.

Conducting this work would have not been possible without the financial support received from Manitoba Hydro, Manitoba HVDC Research Center, Faculty of Graduate Studies at the University of Manitoba, and National Science and Engineering Research Council.

I must also express my gratitude to the management of the Manitoba HVDC Research Center, specially to the managing director Mr. Paul Wilson, for providing their facilities to carry out a part of this research, in addition to the financial support. Also, I would like to thank all my friends in the Power Tower and the staff of the Department of Electrical and Computer Engineering for their continuous encouragement and for making my years at the University of Manitoba a pleasant one.

This acknowledgement would not complete without thanking my family. I extend my heartfelt gratitude to my parents for their support and encouragement throughout my life. A very special thank to my sister for all the love and support over the years. Last but not least I would thank my wife for guiding me to achieve my goals, and my little son for keeping me happy all the time.

Chaminda Amarasinghe

December 2007

Abstract

In a competitive electricity market, market signals are the main driving forces or the incentives for the market participants to make their operational and investment decisions. Locational Marginal Prices (LMP) are the only prevailing market signals, and are determined using an Optimal Power Flow (OPF) program.

The present practice is mainly focus on real power dispatch by solving a LP-OPF together with LMP based settlement. Acquiring the required reactive power & other ancillary services, and ensuring the security (both static and dynamic) are performed subsequently, which may result in curtailments to the already agreed optimal real power dispatch. With such a dispatch mechanism, the resulting market signals are also impaired. Thus, correct market signals can only be analyzed, if the related constraints are suitably modeled in the OPF.

This thesis analyzes market signals after incorporating two such important constraints; reactive power and security issues into market dispatch. First, a reactive power model is proposed to suit the requirements of the competitive electricity market and is incorporated into the OPF. The recently proposed transient stability boundary is then used as a constraint in the OPF to ensure the secure operation of the system.

In determining market signals, the recently proposed method of analysis of LMP components is first presented. The network rental, which is the surplus collected by the system operator due to LMP based settlement of transactions, is then proposed as a method in market signal analysis by decomposing the network rental. The key advantage is that network rental components show how each consumer has actually overpaid due to each binding constraint and losses in a detailed manner, which is argued to be a supplementary pricing signal especially from the consumer's perspective.

Finally, implementation of a software tool using C++ to solve the OPF and extend it to incorporate the above market signal analysis methods is achieved. This allows market signals to be readily available along with the optimal dispatch. The potential of the proposed components of network rental in market signal analysis together with

the suitability of the proposed models in market dispatch are evaluated for different case studies using the developed software tool.

List of Principal Symbols

All notations and most of the terms used in the thesis are described in this section. The remaining terms are explained as they first appear in the text for the convenience in understanding.

i, j	node (bus) number
k	generator bid number
P	real power
Q	reactive power
g	generation
D	demand
P_{gi}	real power generation at bus i
Q_{gi}	reactive power generation at bus i
P_{Di}	real power demand at bus i
Q_{Di}	reactive power demand at bus i
B	bid
B_i	set of all bids at bus i
P_{ik}^B	real power bid quantity of the k^{th} real power bid at bus i
P_{ik}	real power dispatched from the k^{th} bid at bus i
S	price
S_{ik}^B	bid price of the k^{th} real power bid at bus i
S_i^Q	reactive power cost of generator at bus i
I	set of all buses
B_i	set of all bids at bus i
P_i	real power injection at bus i
Q_i	reactive power injection at bus i
Q_{g1i}	Block 1 (i.e., free) reactive power from the generator at bus i
Q_{g2i}	Block 2 (i.e., non-free) reactive power from the generator at bus i

Q_{gi}^{max}	maximum reactive power from the generator at bus i
Q_{gi}^{min}	minimum reactive power from the generator at bus i
T	set of all transmission lines
T_i	set of all transmission lines connecting to bus i
t	transmission line
V_i	voltage magnitude of i^{th} bus
θ_i	voltage angle of i^{th} bus
θ_{ij}	voltage angle difference between voltages of buses i and j
g_{ij}	conductance of the line connected between buses i and j
b_{ij}	susceptance of the line connected between buses i and j
PF_{ij}	real power flow along the line connected buses i and j
PF_{ij}^L	real power loss along the line connected buses i and j
P^L	real power loss in the system
Q^L	reactive power loss in the system
L	Lagrangian equation
max	maximum limit
min	minimum limit
λ	real power LMP at the reference bus
σ	reactive power LMP at the reference bus
λ_i	real power LMP at bus i
σ_i	reactive power LMP at bus i

The Greek symbols μ , β , α , γ , ϕ , ψ and η with suitable subscripts are used to denote the Lagrange multipliers associated with the equality and inequality constraints of the Optimal Power Flow problem.

Table of Contents

1	Introduction	1
	1.1 Characteristics of Electricity Markets	2
	1.2 Motivation Behind the Research	5
	1.3 Main Objectives of the Research	8
	1.4 Thesis Overview	10
2	Electricity Market Overview, Dispatch and Pricing Theory	12
	2.1 Electricity Market Overview	12
	2.2 OPF Problem	16
	2.3 Locational Marginal Pricing	18
	2.3.1 Marginal Pricing Theory	18
	2.3.2 An Example of LMP	21
	2.4 Concluding Remarks	25
3	Incorporating Reactive Power in Market Dispatch	26
	3.1 Present Reactive Power Management	27
	3.2 Modeling Reactive Power Supply in Market Dispatch	28
	3.3 OPF Problem	32
	3.4 Results	36
	3.4.1 Analysis of Price Components	39
	3.4.2 Market Signals Produced by the Proposed Model	41
	3.5 Concluding Remarks	42
4	Incorporating Dynamic Security in Market Dispatch	44
	4.1 Dynamic Security Constraint	46
	4.2 OPF Problem	47
	4.3 Case Studies and Results	49
	4.4 Concluding Remarks	53
5	Analyzing Market Signals	54
	5.1 LMP Components	56
	5.1.1 Traditional Approach	56
	5.1.2 Unbundling LMP Based on KKT Conditions	57
	5.1.3 Numerical Example to Evaluate the LMP Components	62
	5.2 Network Rental	66
	5.2.1 Components of Network Rental	68
	5.3 Calculating the Components of Network Rental Based on LP-OPF	68
	5.3.1 Neglecting Transmission Losses	69
	5.3.2 Including Transmission Losses	73
	5.3.3 Discussion	81
	5.4 Proposed Method of Calculating the Components of Network Rental	82
	5.4.1 Determining the LMP Difference Between Two Buses in Terms of Contributing Components	82
	5.4.2 Calculation of Components of Network Rental For a System Having a Single Load Bus	89

5.4.3	Separation of Network Rental Among Consumers Using Power Flow Tracing	94
5.4.4	Discussion	99
5.5	Concluding Remarks	100
6	Software Implementation	102
6.1	Implementing the Newton Based Approach	104
6.1.1	The Newton Approach	104
6.1.2	Handling the Inequality Constraints	107
6.1.3	Calculation of Marginal Prices, Components of LMP, Components of Network Rental	109
6.1.4	Algorithm and Implementation Issues of the Newton Method	112
6.2	Implementing the SLP Based Approach	115
6.2.1	Linearized Problem	115
6.2.2	Calculation of Marginal Prices, Components of LMP, Components of Network Rental	116
6.2.3	Algorithm and Implementation Issues of the SLP Method	117
6.3	Performance of the Developed Software Tool	119
6.4	Concluding Remarks	120
7	Case Studies and Results	122
7.1	Market Signal Analysis using the IEEE New-England 39 Bus System	122
7.1.1	LMPs	125
7.1.2	LMP Components	125
7.1.3	Network Rental Components	128
7.1.4	Discussion	130
7.2	Concluding Remarks	131
8	Conclusions	132
8.1	General Conclusions	132
8.2	Contributions	135
8.3	Suggestions for Future Research	137
A	Test Systems Data	139
A.1	IEEE 39 bus system	139
A.2	IEEE 30 bus system	142
B	Constrained Optimization	144
C	LMP Relationships	148
D	Power Flow Tracing using Bialek Method	150
	Acronyms	152
	Reference	154

List of Figures

2.1	Generator bidding to the market	19
2.2	Supply-demand curve and market surplus	20
2.3	3 bus system	21
2.4	LMPs - without line flow limits	22
2.5	LMPs - with 100 MW limit on line 1 – 2	23
2.6	LMPs - with 250 MW limit on line 1 – 3	24
2.7	LMPs - with 100 MW limit on line 2 – 3 and shifting the load to bus 2	25
3.1	Capability region of the synchronous generator	29
3.2	Proposed reactive power model for the generator	31
5.1	3 bus system	62
5.2	Average loss and marginal loss	67
5.3	Piece-wise linear approximation for losses	74
5.4	3 bus system	90
5.5	4 bus system	95
5.6	Real power flows for the 4 bus system	96
5.7	Generator contributions and apportioned losses for each load	97
6.1	Penalty function for the variable X	108
6.2	Algorithm of the Newton method	113
6.3	Algorithm of the SLP method	118
A.1	Single line diagram of IEEE New England 39 bus system	139
A.2	Single line diagram of IEEE 30 bus system	142

List of Tables

3.1	Generator bid data	37
3.2	Reactive power generation data	37
3.3	Generation dispatch with the proposed simultaneous model	38
3.4	Values of the multipliers given by the OPF	38
3.5	Real and reactive power LMPs	41
4.1	Generator bid data	50
4.2	Generation dispatch	51
4.3	LMPs for the three cases	52
5.1	Generator bid data	63
5.2	Dispatch for the Case 1 and Case 2	63
5.3	Components of LMP for Case 1	64
5.4	Components of LMP for Case 1	65
5.5	Components of LMP for Case 2	65
5.6	Components of LMP for Case 2	66
5.7	Generator bid data	90
5.8	Generation dispatch	90
5.9	Binding constraints	91
5.10	Network rental for the 3 bus system	91
5.11	Components of network rental	93
5.12	Generation dispatch	95
5.13	Binding constraints	95
5.14	Network rental for the 4 bus system	97
5.15	Components of network rental	99
6.1	For quadratic cost function	119
6.2	For bid/quantity pairs	120
7.1	Generator bid data	123
7.2	Reactive power generation data	123
7.3	Generation dispatch	124
7.4	Binding constraints	124
7.5	Network rental for the 39 bus system	126
7.6	LMP components	127
7.7	Generator contributions and apportioned losses to each load	129
7.8	Components of network rental	130
A.1	Real and reactive power loads for IEEE New England 39 bus system .	140
A.2	Transmission line data for IEEE New England 39 bus system	140
A.3	Transmission line data for IEEE New England 39 bus system Contd.	141
A.4	Real and reactive power loads for IEEE 30 bus system	142
A.5	Transmission line data for IEEE 30 bus system	143

Chapter 1

Introduction

Electricity industry restructuring during the last two decades has made drastic changes to the traditional electricity structure and will continue for the next several decades. In the past, the electric power industry has been either a government-controlled or a government-regulated industry (i.e., single owner), which existed as a monopoly where the overall authority in generation, transmission, and distribution of power are within its domain of operation. Everyone including household, businesses, and industries were required to purchase their electricity from their local monopolistic power company. This was not only a legal requirement, but also the only source they had to rely on to fulfill their day to day requirements.

The restructuring has led the traditional electricity industry to become a competitive electricity market. The main driving forces for these reforms are due to economic inefficiencies and consumer dissatisfaction associated with the single owned electricity industry. Since electricity is an essential source of energy for everyone and due to its unique characteristics such as un-storability and lack of flexibility in controlling the power flow in transmission lines, the whole process of restructuring is a challenging and complex task [1].

Over the past two decades, however, countries have begun to split up these monopolies in favor of competitive markets to introduce commercial incentives in generation, transmission, and distribution. The main goals under a competitive market design are

efficient and reliable operation of the power system together with market incentives for all the participants [2]. This is done by creating competition between participants in the electricity market with open access.

1.1 Characteristics of Electricity Markets

The process of restructuring that led to electricity markets are not the same in all countries due to economic, political, and other local differences [3]. As a result, newly formed markets have taken different forms to suit their individual requirements. In some markets, competition is only among suppliers while in others both suppliers and consumers compete. Some markets are compulsory and others are voluntary. Some markets only trade real power and some trade reserves, reactive power and other ancillary services, with real power. Some markets use pool-based systems and others use bilateral contracts. While some markets use full nodal pricing, and others use zonal pricing arrangements, some use uniform prices. In some markets, settlement is only based on a real time market, whereas some others use forward markets in addition to the real time market.

However, there is a common basis and some similar characteristics that can be found in all competitive electricity markets. Generally, generation, transmission, and distribution services are the responsibilities of different companies in order to create the competition. Normally, the wholesale market is pool-based in nature with the provision for bilateral contracts. This means that all suppliers (i.e., generators) sell energy to a pool and consumers buy energy from that pool by bidding to the market (bid/quantity pairs). Furthermore, there can be financial contracts between participants outside the electricity market on long-term basis. Such long-term contracts are agreements between participants to mitigate or share the risk associated with price volatility due to the change in supply and demand conditions [4]. While generation and demand sides are competitive, the transmission remains a monopoly. The huge cost of investing in the transmission network as well as geographical reasons do not

CHAPTER 1 - INTRODUCTION

allow the transformation of this service into a competitive market. In order to ensure open and fair access, the grid and the wholesale energy market are operated by an independent entity with no direct interests in the energy business. This entity is commonly known as the Independent System Operator (ISO) and is responsible to achieve the above-mentioned goals while maintaining the security and the quality of the supply.

One of the key concerns to any restructured market is the ability to operate the transmission system in a manner that is fair to all participants. In USA, the Federal Energy Regulatory Commission (FERC) oversees issues involving the transmission system. FERC presently believes that the only way in which everyone will be on a competitive environment is to create open access to all the participants. As stated in its white paper [5] on Standard Market Design (SMD), participants in wholesale power markets will have non-discriminatory open access to the transmission system. Further, it proposes Locational Marginal Pricing (LMP) as a way of settling the transactions between the participants. This is further insisted upon in their recent documents, subsequent to the SMD white paper [6], [7]. This pricing scheme is also called “nodal pricing” and the concept of nodal pricing was proposed in [8] long before the restructuring of the electricity industry started. LMP is the marginal cost of supplying the next increment of a quantity at a specific bus, considering marginal cost of generation and physical aspects of the transmission system. Due to operating the power system at limiting values of the constraints imposed by the physical and operational limits, which are commonly known as ‘binding constraints’, and due to the transmission losses, there exist different LMPs across the transmission network which provide a precise, market-based method for pricing energy that includes the cost of constraints and transmission losses.

An Optimal Power Flow (OPF) program is commonly used to obtain the optimal generation dispatch [9]. The present practice is based on solving a Linear Programming based OPF (LP-OPF), which has the advantage of simplicity and robustness

in the solution algorithm compared to Nonlinear Programming based OPF (NLP-OPF). Mathematically, LMPs are the dual variables of the power balance equations associated with the OPF. Therefore, once the OPF is solved, LMPs can be easily determined.

The state-of-the-art OPF is nonlinear in nature. The LP-OPF is a linear approximation of this standard NLP-OPF, which only requires linear network models commonly known as dc power flow models. Hence, transmission losses, reactive power related issues and security issues are not modeled in the LP-OPF. However, due to the fact that it does consider the line flow constraints, which has the most impact on real power dispatch, and due to the simplicity associated with the solution algorithms, LP-OPF is still dominating in all electricity markets.

The system losses, however, cause significant impact on generation dispatch depending on the topology of the power system network [10]. Therefore, in some electricity markets losses are incorporated into the LP-OPF with a piece-wise linear approximation for losses [11]. Alternatively, some markets use loss factors to represent the effects of the system losses [12]. All these methods are, however, based on approximations, and therefore do not accurately represent the transmission losses.

For the successful operation of the system, the ISO needs to procure some essential services other than real power, such as reactive power, spinning reserve, regulation, and black start capability, which are commonly known as ancillary services [13]. With the current practice, these ancillary services are not included in the dispatch algorithms, and are accrued in other ways such as long term contracts or having a separate auction similar to real power.

The system security is another crucial issue to be addressed in market dispatch. Unlike in single owner electricity industries, where the system operations are carried out in a carefully planned and cooperative manner, in a competitive electricity market no attention is paid by the market participants to the system security. This is because, each market participant has own interests to maximize its benefits. Thus, the ISO

has a key role in maintaining the system security by incorporating the security related constraints into market dispatch.

The success of a competitive electricity market relies on the competition between the participants. Market signals are the main driving force for the participants in achieving this objective. Correct market signals provide a clear and accurate indication of the price of electricity at every location on the grid. These signals in turn reveal the value of locating new generation, upgrading transmission, alleviating the constraints, increasing the competition, and improving the systems ability to meet power demand.

1.2 Motivation Behind the Research

In order to achieve the goals of restructuring, many outstanding engineering problems need to be investigated. Most of the tools used in single owner electricity industry are no longer valid and new tools need to be created. Most importantly, these related issues should be addressed early in the restructuring process.

One such pertaining issue is how to determine the correct market signals for the market participants. Unlike in the single owner electricity industry, participants in the restructured electricity market seek market signals for their operational and investment decisions, which eventually lead to a successful operation of the electricity market. These signals indicate the effects on the price of electricity at each location due to various factors such as system losses and binding constraints. For instance, new generation companies will have an incentive to locate their new generators at high priced locations, while new consumers will prefer low priced locations. On the other hand, the ISO can use these market signals to enhance the performance of the electricity market.

The present practice of market dispatch is based on solving a LP-OPF, where very little attention is given to the procurement of reactive power and other ancillary services, and ensuring the security (both static and the dynamic) of the system.

Typically, these related constraints are not used in the conventional OPF, and are procured or ensured in different ways after solving the OPF. This two-step approach, however, does not guarantee the optimal procurement of real and reactive power due to the subsequent adjustments made to the real power dispatch. Thus, to analyze the correct market signals, those underlying constraints must be correctly incorporated in the OPF.

The main advantage of including these constraints is that both technical and economical aspects related to these constraints are embedded in the OPF. Thus, it represents the actual operation of the network, and hence more accurate market signals can be obtained for the market participants for their operational and investment decisions. Despite the associated complexities due to nonlinear constraints, it could be feasible to solve a NLP-OPF in the future due to the continuous advancement in computing speed [1]. Therefore, how to include these additional constraints into the OPF and what methods should be used in analyzing the resulting market signals are important issues to be investigated.

As mentioned in Section 1.1, the ISO has the responsibility of acquiring the required amount of reactive power from suppliers at appropriate locations of the network. This is done in a sequential manner, where real power is dispatched first and then reactive power is dispatched subsequently as an ancillary service. Different reactive power models have been proposed in the literature for a sequential dispatch of real and reactive power. However, this process may result in adjustments to the already agreed real power dispatch and sometimes this could lead to an infeasible solution. Therefore, there is a need for a good reactive power model that captures both technical and economical aspects to suit the simultaneous dispatch of real and reactive power.

Typically, the Dynamic Security Constraint (DSC) is not used in the traditional OPF, due to the unavailability of such a constraint in the functional form compatible with the OPF. The current industry practice of determining the generation dispatch

that is secure from a dynamic stability point of view is by performing a dynamic stability simulation after solving the OPF [46], [47], or by performing the generation dispatch by some other means. Recently, there has been a motivation towards the development of Dynamic Security Constrained Optimal Power Flow (DSCOPF) programs in which the dispatch is ensured against the security of the system in one step. A novel technique to derive an accurate transient stability boundary is proposed for a given credible contingency in [51]. In this way, a separate DSC can be derived for each credible contingency. This can be used as a constraint in the OPF to obtain dynamically secured generation dispatch.

The LMPs, which represent the price of electricity at each location of the system, are considered to be the key market signals. Even though, LMPs provide valuable information at each location of the system, they do not provide a detailed description in terms of contributions coming from different constraints and marginal generators. Unlike in LP-OPF, where only line flow constraints are considered, with NLP-OPF, several other binding constraints also contribute to the LMP at a given location. The existing method of analyzing LMP components can be used to determine the effects of all the binding constraints explicitly, and hence can be used as better market signals for the participants than LMP itself. However, the effects of transmission losses cannot be seen explicitly from LMP components, which is a drawback of this method.

When LMPs are used for settlement of transactions, there exists a difference between what consumers pay to the ISO and what generators get paid by the ISO [17]. This difference is referred to as network rental in this thesis, and is accumulated with the ISO. Network rental is made up of two components known as the loss rental and the constraint rental. Loss rental is due to the difference in average losses and marginal losses. The constraint rental is due to operating the power system at binding constraints imposed by the OPF. Inclusion of the above additional constraints in the OPF leads to further accumulation of rental with ISO, and therefore, components

of network rental could be used as another way of analyzing market signals. In fact, since the network rental is an overpayment made solely by the consumers, the components of network rental show how each consumer has actually overpaid due to each binding constraint and losses. Therefore, the components of network rental can be considered as consumer oriented market signals. However, the available methods are not sufficient in determining these components separately. Hence, there is a need for a new method to decompose the network rental, so that these components can be effectively used as a tool in market signal analysis.

1.3 Main Objectives of the Research

The main objective of this research work is to analyze market signals using both proposed and existing methods, after incorporating two constraints that account for the reactive power and security issues in market dispatch. In this regard, first a reactive power model is proposed to be incorporated in the OPF for a simultaneous dispatch of real and reactive power. This OPF is then extended to incorporate the DSC to ensure the dynamic security of the system in a simultaneous manner.

Having incorporated these constraints, the associated market signals are then analyzed. The existing method of LMP components is first used to analyze market signals. This enables the determination of the effects of marginal generators and all binding constraints explicitly and quantitatively, which in turn can be used as better market signals. However, LMP components do not show the effects of losses explicitly.

Then, a theoretical background related to network rental is presented together with the proposed method to decompose the network rental into contributing components. These components of network rental are then proposed as supplementary market signals, to be used together with LMPs and components of LMPs in determining market signals. Finally, a software tool is developed using C++ to implement the OPF to include the above features. Thus, market signals can be determined together with the optimal dispatch.

In meeting the above objectives, the following steps have been accomplished.

1. Investigation of the operation of current electricity markets. This enables the comparison of different electricity markets and the determination of a common market framework for the work presented in this thesis. Further, it gives a better understanding of how reactive power is procured; dynamic security is ensured; and market signals are determined, in existing electricity markets.
2. Proposal of a new reactive power model for a simultaneous dispatch of real and reactive power, by considering the capability of the synchronous generator and the fairness of reactive power supply obligation to suit the competitive electricity market. The opportunity cost of supplying reactive power is implicitly modeled using the rating of the machine as a constraint. Fairness of the reactive power supplying obligation is also ensured by splitting the reactive power supplied by the generator into two components with the first component being proportional to real power dispatch.
3. Incorporation of the Dynamic Security Constraint (DSC) in the OPF, to investigate the effects on generation dispatch due to the DSC. This approach has been enabled by the availability of the DSC in a functional form in terms of nodal voltages and their phase angles.
4. Explanation of the existing method of breaking down of LMP into contributing components. The LMP at a given bus is made up of contributions coming from marginal generators and binding constraints, and therefore, explicit decomposition shows individual contributions due to each of the above factors. Thus, these LMP components serve as better market signals than LMP itself.
5. Explanation of the concept of network rental and proposing a novel technique to decompose the network rental among consumers into contributing components. This enables each rental component paid by each consumer to be quantitatively determined, which in turn can be used as supplementary market signals.

6. Implementation of the OPF in the C^{++} programming language to include the above features. The resulting software can be used as a tool to perform computational experiments to gain insight into the operation of electricity markets, to compare the results with benchmark models and to analyze market signals.

1.4 Thesis Overview

The thesis has eight chapters and four appendices, which are organized to allow a progressive discussion of the approach employed to achieve the above objectives.

Chapter 2 provides an overview to operation of the existing electricity markets. This includes historic evolution of electricity markets, analysis of present market structures and procurement methods, and associated problems in the current markets. The OPF program is then presented as it is used to determine the optimal dispatch in the electricity market. Finally, the widely accepted concept of LMP, which is also currently being used in most electricity markets, is presented together with some examples to demonstrate how these LMPs are calculated.

At the beginning of Chapter 3, the present reactive power procurement methods are explained. Then, different ways of modeling reactive power proposed in the literature are presented together with the limitations and the drawbacks of those methods. Finally, a new reactive power model for a simultaneous dispatch of real and reactive power is presented, by considering the capability of the synchronous generator and the fairness of reactive power supply obligation to suit the competitive electricity market. A case study with the proposed reactive power model is also presented to convince the suitability of the proposed model in market dispatch.

Chapter 4 starts with an introduction to the security of the power system and a brief summary of how dynamic security is ensured in the restructured electricity market. This is followed by an explanation to the technique proposed in [51] to derive an accurate transient stability boundary for a given credible contingency, which can be readily used as a constraint in the OPF. Then, the inclusion of DSC in the OPF

is presented together with a case study to determine the effects of DSC on LMPs.

In Chapter 5, different methods to analyze the associated market signals are presented. The chapter begins by presenting the existing method of analyzing components of LMP. Then, a method is proposed to analyze the components of network rental. This includes a novel method of decomposing the network rental among consumers and how these components can be used in analyzing market signals. Finally, some case studies are presented to numerically evaluate these individual components.

Chapter 6 describes the tool developed in C^{++} language that implements the OPF and incorporates the above market signal analysis methods. Based on the analysis of the capabilities of different OPF solving techniques described in the literature survey, Newton method and Sequential Linear Programming (SLP) method are used in this work to implement the OPF. This chapter gives an in-depth analysis and implementation issues of the above two methods and how each method can be extended to incorporate market signal analyzing methods. Finally, the performance and limitations of the developed software tool are presented. A commercially available optimization software tool called the Generalized Algebraic Modeling Systems (GAMS) is used as a benchmark to compare the results of the developed software.

Chapter 7 presents the results of a case study carried out using the developed software. In this study, the reactive power constraints and DSCs are included in the OPF and the resulting LMPs, components of LMPs and components of network rental are analyzed to determine the associated market signals.

Finally, in Chapter 8, conclusions of this research work are drawn. It is concluded that the components of network rental provide consumer oriented market signals, which can be considered as supplementary information, in addition to LMPs and LMP components. A few suggestions are given for future work covering the studied areas which need further research. The appendices introduce the mathematical derivations and details about test systems used in the main chapters of the thesis. References are made to the appendices wherever required.

Chapter 2

Electricity Market Overview, Dispatch and Pricing Theory

This chapter presents a brief overview to current electricity market operation. Section 2.1 explains the structure of existing electricity markets in different countries together with historic evolution of market restructuring. This enables the comparison of different electricity market structures and thereby finding a common market framework for the work presented in this thesis. The OPF program, which is used in determining the optimal dispatch in the electricity market is presented in Section 2.2. The concept of LMP used in settling the transactions between market participants is discussed in Section 2.3. An example using a 3 bus system is given to demonstrate how LMPs are calculated and what they physically mean.

2.1 Electricity Market Overview

An electricity market is a trading forum where participants compete with each other to buy and sell electricity. Historically, the electricity industry has been a monopoly, and a single owner has had authority over all activities in generation, transmission, and distribution of power within its domain of operation. During this time, there was hardly any competition in the electricity industry and this vertically integrated

CHAPTER 2 - ELECTRICITY MARKET OVERVIEW, DISPATCH AND PRICING THEORY

monopoly was obliged to provide electricity to everyone within its operating territory. Consumers have had no choice other than purchasing electricity from the local monopoly to fulfill their day-to-day requirements.

However, over the past two decades, power industries worldwide have gone through a process of restructuring to create a clear separation between generation and consumption of electricity, and network operations. The economic inefficiencies and the consumer dissatisfaction associated with the single owned electricity industry were the main driving forces behind this restructuring and as a result single owner electricity industries were replaced by competitive electricity markets. However, due to economic and political reasons, this restructuring was not same in all countries. As a result the newly formed markets have taken different forms to suit their individual requirements. Each market has established their own set of rules for a smooth operation of the electricity market, which are commonly known as market rules [2].

After the Federal Energy Regulatory Commission (FERC) issued its historic Order 888 in 1996, followed by Order 2000 in 1999 [18], containing the foundation required for competitive wholesale electricity power markets, the electricity industry in USA has experienced a wide range of restructuring activities [19]. The Pennsylvania-New Jersey-Maryland (PJM) inter-connection restructured its operation in 1997 by establishing the PJM-ISO, followed by New England (NE-ISO), Midwest (MISO), California (CAISO), New-York (NYISO), and Texas with its Electric Reliability Council of Texas (ERCOT) [12]. These newly formed electricity markets have then undergone further reforms based on FERC recommendations.

One such important recommendation was the Standard Market Design (SMD), which came to the picture through its appearance in FERC publications [5] in late 2001. Many of the underlying principles of the SMD have achieved broad acceptance. The core of the SMD includes;

- LMP scheme to manage the efficient use of the transmission system
- establishment of wholesale power markets

CHAPTER 2 - ELECTRICITY MARKET OVERVIEW, DISPATCH AND PRICING THEORY

- independent entity to operate the transmission system
- multi-settlement scheme based on a forward market and a real time balancing market
- market monitoring and market power mitigation

These features are now standard guidelines for a successful operation of a restructured electricity market.

In Chile, restructuring was introduced in 1982, where end users were given the right to choose their energy supplier and negotiate the prices [3]. This was later extended to explicit market mechanisms in order to determine the generation dispatch and the wholesale electricity price. New Zealand began the reform of its power sector by setting up both the Electricity Corporation of New Zealand (ECNZ) and the system operator, Transpower, in 1988 [11]. After some years of initial restructuring, a voluntary wholesale electricity market is currently in place in New Zealand.

In neighboring Australia, the Industry Commission recommended reforms to the state-owned electricity industry in 1990. In 1994, a pool market was established in the state of Victoria. The same market form was introduced into New South Wales in 1996. These two markets founded the National Electricity Market of Australia in 1998.

Within the European continent, England started its electricity industry restructuring in 1989 by passing the Electricity Act. The following year, the newly formed electricity market was commenced as a mandatory pool market. In 1994 consumers with a demand of more than 100 MW became eligible to participate in the market and this was extended to all consumers in 1998. The mandatory pool market was replaced in 2001 with a market-based structure under the New Electricity Trading Arrangements (NETA), where bilateral contracts are possible parallel to the voluntary pool market.

In parallel to the restructuring in England and Wales, Norway began its reform

CHAPTER 2 - ELECTRICITY MARKET OVERVIEW, DISPATCH AND PRICING THEORY

in 1990 by adopting the Energy Act. In 1995, the Swedish market was also reformed and together with the Norwegian electricity market established the Nord-Pool, which was launched in early 1996. This market includes both bilateral and voluntary pool modes. Thereby, it has avoided the non-flexibility of England's initial pool market. Finland became a member of Nord-Pool in 1998 followed by West Denmark in 1999 and finally East Denmark in 2000.

Even though the restructuring process has taken a number of different forms in various countries as explained above, there is a common basis and some similar characteristics that can be found in most newly formed competitive electricity markets. The main characteristic is that the generation, transmission, and distribution services are separated, and are the responsibilities of different entities commonly known as market participants. These market participants compete with each other in the electricity market to buy and sell electricity. While generation and demand sides are competitive, transmission side remains a monopoly. In order to ensure the open and fair access to all the participants in the electricity market, the grid and the wholesale energy market are operated by an independent entity known as the Independent System Operator (ISO).

It is possible to classify the existing market structure into two types; the bilateral contract market and the pool-based market [2]. In the bilateral contract market, generators and consumers have negotiable agreements for power delivery according to their own contracts, independent from the ISO. Thus, in this market structure, the ISO's duties are limited to market operation by verifying whether the preferred transaction can be executed without violating the power flow constraints. Since the participants set their power transactions based on the desired contract terms, this market structure has the minimum intervention from the single owner electricity industry. Alternatively, in the pool-based market, no direct bilateral contracts exist between generators and consumers, instead, both generators and consumers bid into a common pool to buy and sell electricity. However, there can be financial contracts

between participants outside the electricity market. The ISO performs both market administration and system operation to schedule the energy transactions between the participants. This type of market is fully competitive, and therefore, a pool-based market model is considered for the work presented in this thesis.

Another feature common to most electricity markets is that there can be numerous financial contracts between the participants [2]. As electricity prices can be extremely volatile due to the fluctuation in generation and demand, these contracts are essential to hedge against the associated financial risks. A multi-settlement scheme based on a forward market and a real time market, and Financial Transmission Rights (FTRs) are found in most markets to alleviate the participants risk.

Settlements between participants are based on Locational Marginal Pricing, calculated from an OPF. LMP is the marginal cost of supplying the next increment of a quantity at a specific bus, which considers the marginal cost of generation and the physical aspects of the transmission system. Different LMPs exist across the transmission network due to both the constraints imposed by physical and operational limits (commonly known as ‘binding constraints’) and transmission losses. This provides a precise, market-based method for pricing energy that includes the cost of constraints and transmission losses. These LMPs serve as important pricing signals for the market participants to make their operational and investment decisions.

Another feature common to most markets is that only real power is traded in the market. Other services that are necessary to support the transmission of power while maintaining the security and reliable operation, are acquired subsequently, separate from the real power dispatch. These services are commonly known as ancillary services.

2.2 OPF Problem

The Optimal Power Flow (OPF) program has been widely used to determine the optimal generator dispatch of a given power system. This is done by optimizing the

total operating cost of the power system or any other appropriate objective function subjected to a given set of constraints which basically represent the physical and operating capabilities of the power system [20]. The OPF was first introduced in the 1960s and now it has become a standard tool in power system planning and decision making. The recent restructuring process in the electricity industry has broadened the application horizon of the OPF, such that now the OPF is used in making operational decisions as well as investment decisions.

The OPF is modeled as a static problem, in which the time variation of the loads are neglected, by assuming fixed loads at the instant of solving the OPF. In general, OPF is a nonlinear optimization problem and hence the feasible region could be non-convex, leading to a challenging task in solving the OPF [21]. As given in Appendix B, the OPF problem can be written as,

$$\begin{aligned} & \text{optimize} && f(x) \\ & \text{subject to} && g(x) = 0 \\ & && h(x) \leq 0 \end{aligned} \tag{2.1}$$

where x represents the decision variables for which the OPF is being solved; $f(x)$ is the objective function that is being optimized; $g(x)$ are the equality constraints that include the active and reactive power balance equations at each bus; and $h(x)$ are the device limits due to the physical and operating capabilities of the power system.

As mentioned in Chapter 1, current practice focuses on solving a LP-OPF, which has the advantage of simplicity and robustness of the solution algorithm. However, the recent advancement in fast computers enables implementing complex algorithms to solve the OPF. This allows the incorporation of static security limits, dynamic security constraints, reactive power dispatch models, and spinning reserve requirements into the OPF.

The calculation of LMPs is also important during the solution process, even though

it is not directly related to the solution process of the OPF. In fact, LMPs are the Lagrangian multipliers or the dual variables associated with the power balance equations of the OPF. Depending on the OPF solution technique used, there are different ways of calculating the LMPs, which are discussed in Chapter 6 in greater detail.

2.3 Locational Marginal Pricing

Locational Marginal Pricing (LMP) or nodal pricing is a method of determining the prices of delivered electricity calculated at every bus in the transmission grid. Each bus represents a physical location in the transmission system, where participants are connected. The LMP at each bus represents the locational value of energy, which includes both cost of the energy and the cost of delivery, by considering the physical aspects of the transmission system. Therefore, LMP at a given bus is nothing more than the cheapest way by which an incremental unit of MW is delivered to that particular bus from the available generators while respecting all the system constraints. These LMPs are thus considered to be key pricing signals for the market participants [2]. The FERC has also advocated using LMP in its Standard Market Design (SMD) as a way to achieve short and long-term efficiency in wholesale electricity markets [5]. This is further insisted upon in their recent documents, subsequent to SMD [6], [7]. The LMP for the reactive power can also be defined in a similar way to that of real power, which is discussed in Chapter 3 in detail.

2.3.1 Marginal Pricing Theory

Economic theory states that competition for a commodity could be maximized, if that commodity is sold or purchased at the marginal price [8]. Marginal price is the price of the next increment of the considered commodity. In the case of real power, it is the cost of the next increment MW delivered to a given location of the network. The same is true for the reactive power.

In the electricity market, generators and consumers submit price-quantity bids for

the real power that they are willing to supply or consume at a given time interval. From the generator's perspective, the bid price should only contain the incremental variable cost of generation (i.e., the operational cost and any opportunity cost incurred), which is referred to as their short-run marginal cost (SRMC). The price-quantity bids are derived from the incremental variable cost curve, which is typically a polynomial function of generation as shown in figure 2.1. Generator owners use different bidding strategies to derive the bidding pattern, in order to maximize their own profit [2], [22], [23].

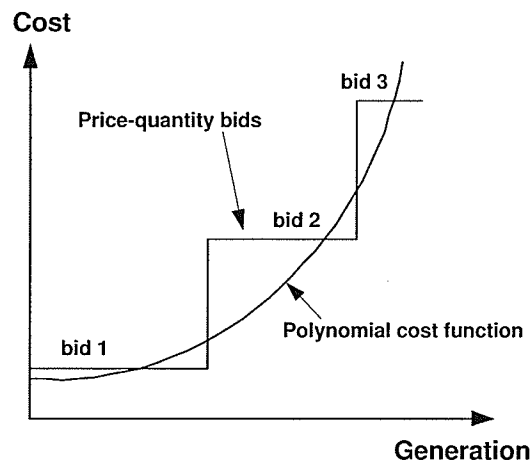


Figure 2.1: Generator bidding to the market

In the long term, generators must also cover fixed operating costs including embedded costs, depreciation, and rate of return [24]. The combined charge of variable and fixed costs is often referred to as the long-run marginal cost (LRMC).

It is important to note that even under pricing based on short-run marginal costs, generators still have the opportunity to recover their fixed costs, as explained below.

Figure 2.2 shows an example with four generator bids and five consumer bids aggregated to a single bus. Generator bids are aggregated in the order of increasing bid price while consumer bids are aggregated in the order of decreasing bid price. The intersection point of the supply and demand curves determines the dispatched quantity and the price, commonly known as the spot quantity and the spot price

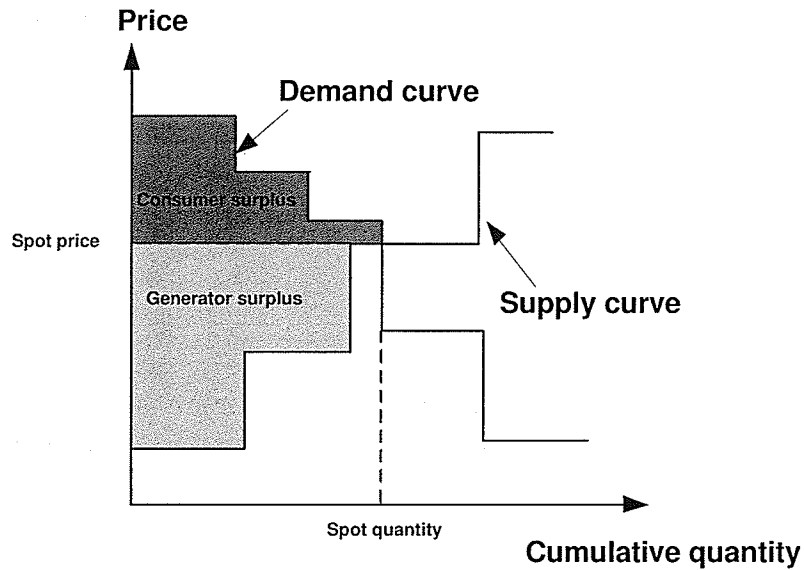


Figure 2.2: Supply-demand curve and market surplus

respectively. This spot price is also known as the Market Clearing Price (MCP) [25]. In general, when there is no transmission network (i.e., no transmission congestion and no transmission losses), MCP is the only existing price. The price of the partly dispatched bid known as the marginal bid sets the MCP. Any generator bid that has a price less than the MCP and any consumer bid that has a price greater than the MCP are fully dispatched.

Therefore, dispatched non-marginal generators earn a surplus, since their marginal cost represented by the bid price is less than the MCP, which is the price paid by the ISO to the generators. This amount in turn can be used to cover their fixed cost. Similarly, dispatched non-marginal consumers also gain a surplus¹. The dispatch is thus to maximize the total surplus to both generators and consumers.

However, in a practical system with a transmission network, the concept of MCP is no longer valid and more general Locational Marginal Pricing (LMP) has to be used [25]. The next section presents how LMPs are calculated for a multi-bus network.

¹If consumers are not bidding into the market, the demand curve becomes a straight line resulting in no consumer surplus. In fact, no demand side bidding is considered in the analysis presented in this thesis. Therefore, the loads are known constants for the dispatch.

2.3.2 An Example of LMP

The simple 3 bus system shown in figure 2.3 is considered to illustrate the LMPs. For simplicity, the losses are neglected and it is assumed that all the lines have same reactance of 0.25 pu. Further, it is assumed that each generator has placed only one bid. Four cases are considered in the following analysis; in Case 1, line flow limits (i.e., thermal loading of the lines) are ignored; in Case 2, a line limit of 100 MW is applied to line 1 – 2; in Case 3, a line limit of 250 MW is applied to line 1 – 3; and in Case 4, a line limit of 100 MW is applied to line 2 – 3 while shifting the 400 MW load to bus 2.

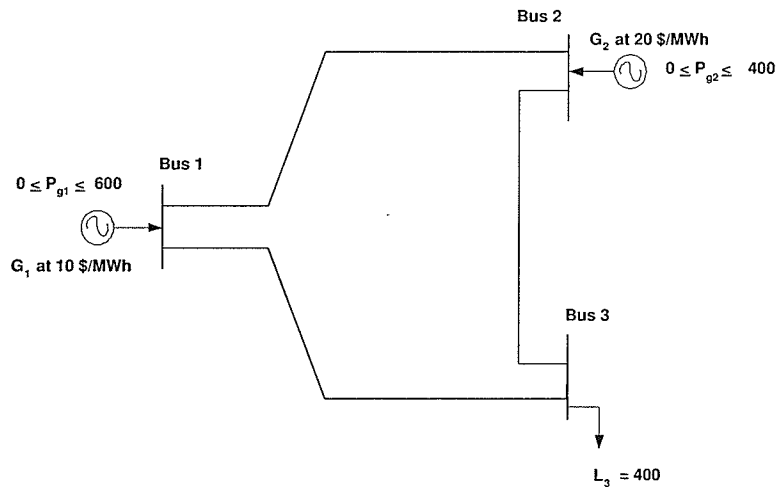


Figure 2.3: 3 bus system

Case 1: No line flow limits

Without line flow constraints, the cheaper generator G_1 is supplied the load at bus 3 and becomes the marginal generator. The expensive generation at G_2 is not dispatched at all. Any increase in load at any location will be catered by G_1 and therefore, LMPs at all 3 buses are equal to 10 \$/MWh which is the bid price of the generator G_1 . The generation dispatch, LMPs, and line flows of each line are summarized in figure 2.4.

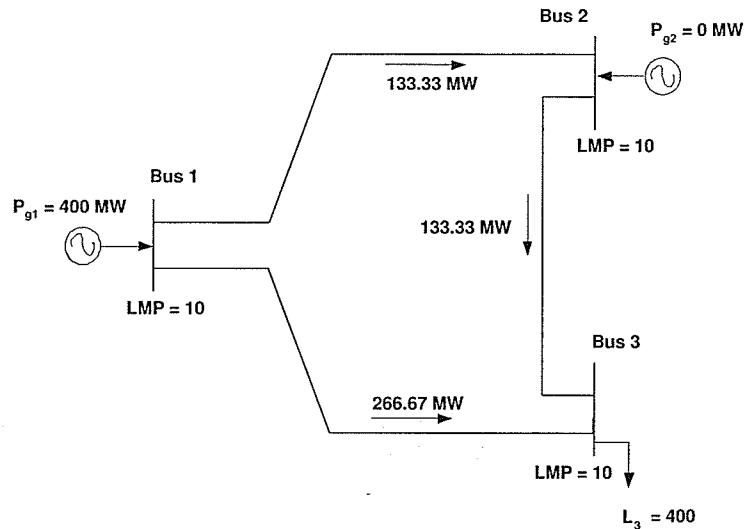


Figure 2.4: LMPs - without line flow limits

Case 2: 100 MW line limit on line 1 – 2

The 100 MW line limit in Case 2 results in line 1 – 2 reaching the 100 MW limit. This yields the expensive generation at G_2 also partly dispatched. As a result, LMPs are different at each bus and both generators become marginal. The generation dispatch, LMPs, and line flows of each line are shown in figure 2.5.

As in Case 1, LMP at bus 1 is still 10 \$/MWh. This is because any increase in demand at bus 1 can be supplied by G_1 , despite the line flow constraint on line 1 – 2. The LMP at bus 2 is 20 \$/MWh, indicates that any increase in demand at bus 2 is supplied by G_2 . This is expected because, the line flow constraint on line 1 – 2 does not allow any increase in generation from the cheaper generator G_1 to cater for any increase in demand at bus 2. Therefore, any increase in demand at bus 2 is entirely supplied by G_2 .

On the other hand, LMP at bus 3 is neither 10 nor 20, but 15, which is in between the bid prices of the two marginal bids. This can be explained as follows. Due to line flow constraint on line 1 – 2, if the demand at bus 3 were to be increased by 1 MW, the total amount would not be completely supplied by G_1 . Due to the equal

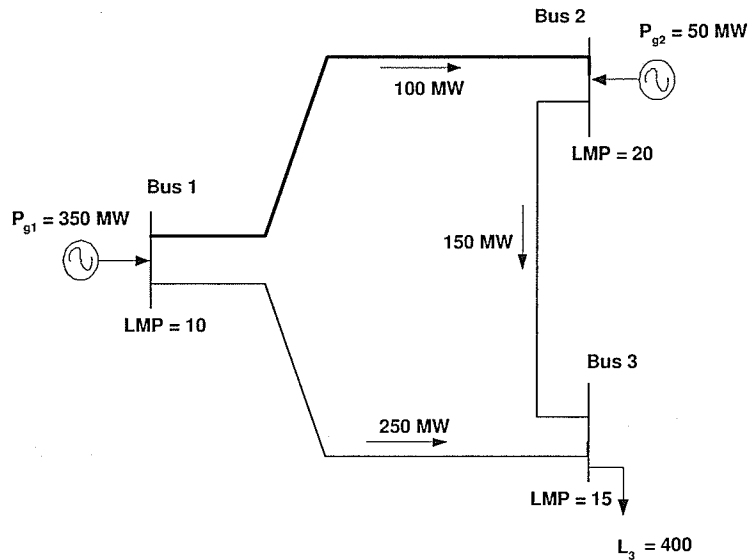


Figure 2.5: LMPs - with 100 MW limit on line 1 – 2

reactance of all lines, power flow from G_1 to bus 3 would split between lines 1 – 2 and 1 – 3 in a proportion of 2:1². On the other hand the power flow from G_2 to bus 3 would split between lines 2 – 1 and 2 – 3 to a proportion of 1:2. Since the power flows on line 1 – 2 for G_1 and G_2 are in opposite directions, equal amount of power generated on each generator will cancel the effective increase in power flow on line 1 – 2 to maintain the line limit of 100 MW. This results in 50% of the incremental load being supplied by G_1 and the remaining 50% by G_2 . Therefore, LMP at bus 2 can be calculated as $0.5 \times 10 + 0.5 \times 20 = 15$.

Case 3: 250 MW line limit on line 1 – 3

In Case 3, the binding line flow on line 1 – 3 causes both generators to become marginal as in Case 2. The important point, however, is that the LMP at bus 3 is higher than the expensive bid price (i.e., bid price of G_2).

This is because the line flow constraint necessitates a reduction in the cheaper generation at bus 1 in order to increase the generation from the expensive generation

²According to the dc power flow equation, power flows between two nodes in different paths are inversely proportional to the reactance of the path.

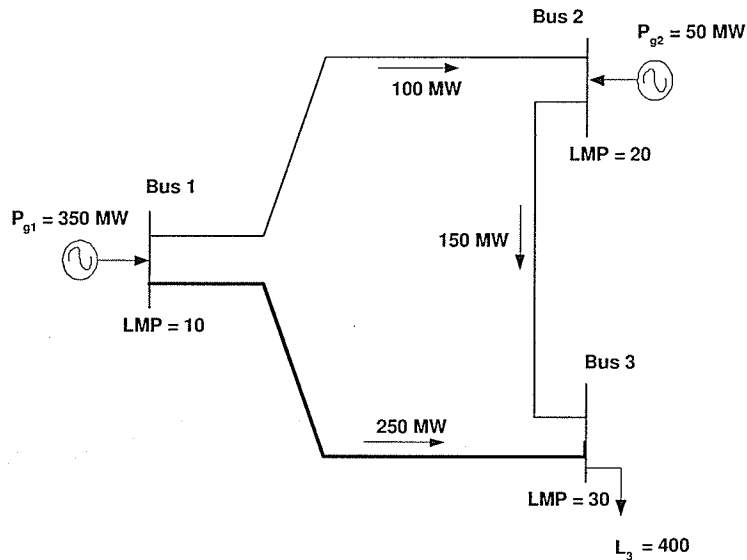


Figure 2.6: LMPs - with 250 MW limit on line 1 – 3

at bus 2 in catering any increase in real power demand at bus 3. In other words, to keep the line flow of line 1 – 3 at 250 MW (which is the thermal limit of the line), the generation from G_1 must be reduced to counteract on line 1 – 3, so that the increase in line flow on line 1 – 3 due to the increase in G_2 is exactly compensated by the decrease in line flow on line 1 – 3 due to the decrease in G_1 . Following a similar analysis to Case 2, the LMP value at bus 3 is calculated as 30.

Case 4: 100 MW line limit on line 2 – 3, while shifting the 400 MW load to bus 2

In Case 4, the LMP at bus 3 is zero, which is less than the cheapest bid (i.e., bid price of G_1). This case illustrates that the incremental load at bus 3 will improve the usage of the cheaper generator G_1 by relieving the binding line flow constraint on line 3 – 2. The zero value for the LMP at bus 3 can be confirmed by performing the same analysis explained in Case 2.

In summary, it can be seen that the effects of binding line flow constraints are embedded in the LMP at each bus in the system.

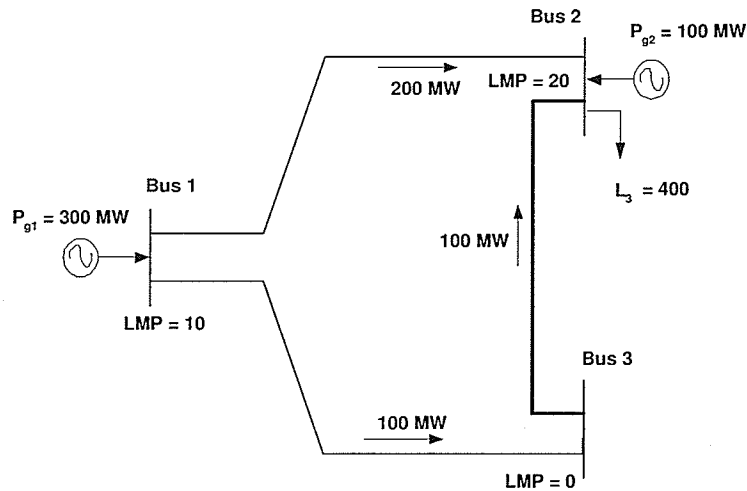


Figure 2.7: LMPs - with 100 MW limit on line 2 – 3 and shifting the load to bus 2

2.4 Concluding Remarks

This chapter defined a common market framework to be used in the subsequent analysis presented in this thesis. After reviewing the operation of the current electricity markets and identifying the common features to most of the electricity markets, the pool-based market has been chosen as the market model for the work presented in this thesis.

The OPF, which is used to determine the optimal dispatch, and the concept of Locational Marginal Pricing, which is used to settle the transactions between market participants, have also been discussed. In that regard, the marginal pricing theory and the mathematical model of the OPF have been presented. It has been stated that LMPs provide important pricing signals for the participants. Examples using a simple 3 bus system have been presented to demonstrate how LMPs are determined and what they physically mean. This chapter also demonstrated how LMPs vary in the network due to binding line flow constraints. The effects of losses and other binding constraints on LMPs are studied further in the subsequent chapters.

Chapter 3

Incorporating Reactive Power in Market Dispatch

In restructured electricity markets, market participants compete with each other by bidding to buy and sell real power. Although, consumers bid only for real power, they also consume reactive power. In addition to this, reactive power is also required to support the voltage in the network which is directly related to the system security. Insufficient reactive power supply can lead to a voltage collapse, similar to the US–Canada blackout in 2003 [26]. Therefore, the ISO has the responsibility of acquiring the required amount of reactive power from suppliers at appropriate locations of the network [27]. Although, the cost of generating reactive power is almost negligible compared to the cost of generating real power, the unavailability of reactive power at certain strategic nodes may have a significant influence on the real power dispatch and prices [28], [29].

Generally, rules of the electricity market specify the amount of reactive power that each generator has to supply. If the reactive power available from the generators is insufficient, the ISO may have to acquire some additional reactive power from other sources. As discussed in Chapter 1, the problem addressed in this chapter is reactive power pricing using the nodal pricing approach. Nodal pricing of reactive power has been discussed in the context of restructured electricity industry in [30], [31].

With the present practice, real power is dispatched first and reactive power is dispatched or acquired subsequently as an ancillary service. This may result in adjustments to the real power dispatch. Therefore, the generator owners have to indicate their cost of adjusting real power as a separate piece of information [32], [33]. This sequential approach, however, does not guarantee the optimal simultaneous dispatch of real and reactive power.

In this chapter, a new reactive power model is proposed to be used in the OPF for a simultaneous dispatch of real and reactive power. In the proposed model, the opportunity cost of supplying reactive power is implicitly modeled using the rating of the machine as a constraint. Fairness of reactive power supply obligation is also ensured by splitting the reactive power supplied by the generator into two components with the first component being proportional to real power dispatch.

This chapter is organized as follows. A discussion of reactive power management in current electricity markets is given in Section 3.1. Different reactive power models that have been put forward together with the proposed reactive power model are given in Section 3.2. The OPF problem is presented in Section 3.3. Some important relationships derived for the optimality conditions are also presented in Section 3.3. Section 3.4 presents a case study and an analysis of different price components to prove the suitability of the proposed model.

3.1 Present Reactive Power Management

Reactive power management receives greater attention in restructured electricity markets. Although, the cost of production of reactive power is very small compared to that of real power, the assumption of zero cost is not acceptable in a competitive market. However, still there is no well-developed and widely accepted reactive power procurement method. Instead, each electricity market uses its own procurement strategies based on its market rules. The FERC has also made recommendations, that the reactive power providers should be financially compensated in an equitable fashion

according to an agreed way between market participants [34].

Presently, under the restructured environment, reactive power and other ancillary services are not treated integrally with the real power dispatch. Therefore, the ISO has the responsibility of acquiring the required amount of reactive power from suppliers. The common approach for the provision of reactive power services is based on long term contracts between the ISO and generator owners. These long term contracts are usually bilateral agreements based on market experience rather than based on a competitive framework. In the context of the US, New York ISO, PJM interconnection, and California ISO have such long term contracts that compensate generators for their reactive power services [35], [36], [37]. In addition to this, an opportunity cost payment is also made when real power generation is compromised in order to increase the reactive power availability. However, most of the time, generators are bound to produce free amount of reactive power within a specified range of operation of the generation.

The National Grid Company (NGC) in the UK and Wales also uses this type of long term contracts to procure the reactive power services [38]. In Australia, all the generators receive an availability payment for their preparedness in providing the reactive power when the ISO requires [39]. Furthermore, a compensation payment based on the opportunity cost is also paid for the generators, if the real power is compensated.

3.2 Modeling Reactive Power Supply in Market Dispatch

In a competitive environment, reactive power procurement should also be done in an optimal way similar to that for real power. For that purpose, there is a need for a reactive power pricing structure or a model which captures technical and economical issues associated with reactive power procurement and pricing. Over the years different ways of modeling reactive power in a market environment have been put forward. In [40] the cost of production of reactive power is modeled as a polynomial function

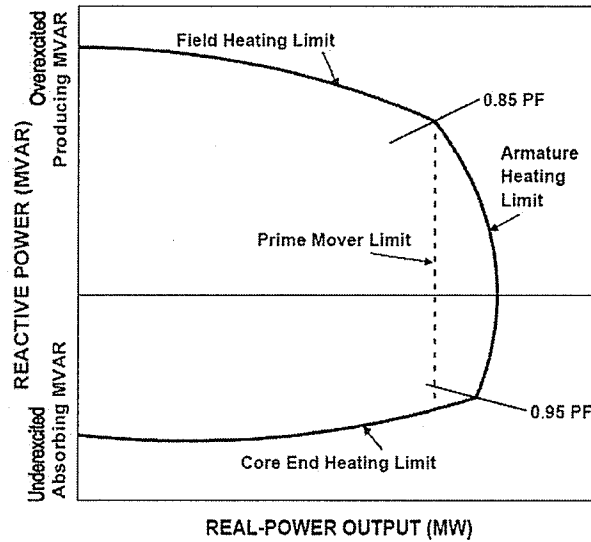


Figure 3.1: Capability region of the synchronous generator

of reactive power generation, and the maximum limit of reactive power generation is treated as a constant. However, as the limiting value of reactive power is determined by the stator current limit or the field current limit, it depends on the real power generation as shown in figure 3.1. Therefore, when a generator is generating the limiting value of reactive power, the amount of real power generation is compromised and thus, there is an opportunity cost. This opportunity cost has been modeled in [41] as a function supplied by the generator owner to the ISO. Furthermore, in this model, the generator owners are obliged to supply a fixed amount of reactive power free of charge. Any amount in excess of this up to a certain limit is priced as a linear function of reactive power generation, beyond which the cost is modeled as the opportunity cost. This model was proposed for a sequential dispatch where the real power is dispatched first, and the reactive power dispatch is done with the flexibility to adjust the real power dispatch.

The ideas presented in [41] are extended in this chapter with some modifications for a simultaneous real power and reactive power dispatch. The model proposed here, has two components for reactive power. The first component Q_{g1} is the obligation of

the generator owner to supply reactive power. Unlike in [41], in the proposed model, the reactive power obligation of the generator is proportional to the amount of real power supplied by the generator, because reactive power is needed to transmit real power and to maintain correct voltages. This concept is rigorously analyzed in [42], where it is pointed out that the generators must supply a certain amount of reactive power free of charge as an obligation and this amount is related to the real power generation in a nonlinear manner.

In the analysis presented in this chapter, the obligation of reactive power supply is modeled as a linear relationship for simplicity (i.e., constant power factor). This linear relationship is given in (3.1) for the generator connected to bus i with the proportionality constant K_i^Q . The term Q_{g1i}^{max} is the maximum obligation of reactive power and $\sum P_{ik}$ is the dispatched real power for the generator at bus i from its k number of bids. The proportionality constant K_i^Q is considered to be common to all generators and it is specified as a market rule. For example, in the California electricity market generators are obliged to supply reactive power free of charge within the range of 0.9 lagging to 0.95 leading [37].

$$Q_{g1i}^{max} = \left(\sum_{k \in B_i} P_{ik} \right) K_i^Q \quad (3.1)$$

The nonlinear model proposed in [42] is a more accurate representation and can be used in place of (3.1). The equation included will have additional terms to represent the nonlinearity, but the method of analysis remains the same.

The second component Q_{g2} has a price that represents the cost of additional real power losses in the field winding due to reactive power generation. This cost, which is a nonlinear function of reactive power generation, is approximated to a linear function. This linear relationship for the Q_{g2i} amount of reactive power from the generator connected to bus i is given in (3.2), where S_i^Q is the cost of reactive power.

$$\text{price of } Q_{g2i} = S_i^Q Q_{g2i} \quad (3.2)$$

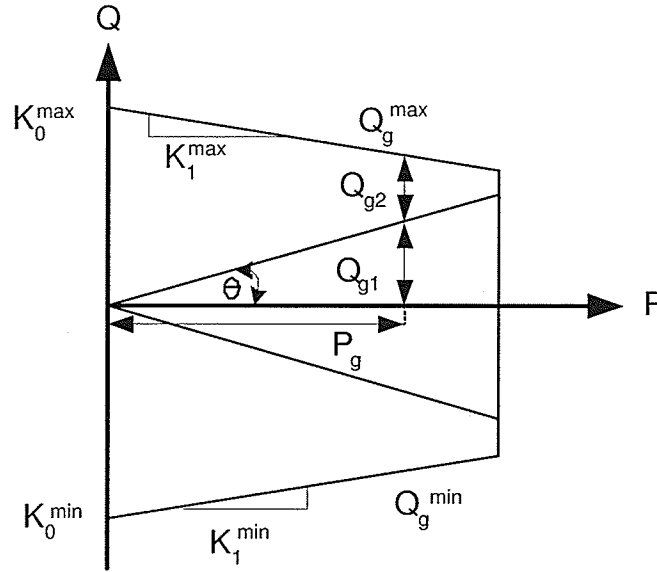


Figure 3.2: Proposed reactive power model for the generator

This model of reactive power can be viewed as having two bids of reactive power with the price of the first bid equal to zero and the quantity proportional to the dispatched real power. In this chapter, these two components of reactive power are referred to as Block 1 Reactive Power, and Block 2 Reactive Power respectively. This structure is also in agreement with [43], where it is proposed to pay the generator owner for extra reactive power made available beyond the level dictated by the performance standards. The value of S^Q or the Block 2 Reactive Power price has to be submitted by the generator owner as a separate piece of information along with the real power bids.

The net amount of reactive power supplied by the generator at bus i is the sum of Q_{g1i} and Q_{g2i} . This is constrained by the operating capability of the generator. In here, the feasible operating region of the generator is modeled by a trapezoid as shown in figure 3.2, which is a straight line approximation of the typical operating capability curve of the synchronous generator shown in figure 3.1. Therefore, the maximum limit of reactive power is a function of real power generation and thus, the opportunity cost is implicit and need not be modeled explicitly.

The total amount of reactive power supplied by the generator at bus i , Q_{gi} is the sum of Q_{g1i} and Q_{g2i} .

$$Q_{gi} = Q_{g1i} + Q_{g2i} \quad (3.3)$$

According to the trapezoidal model of the capability curve, the maximum and minimum reactive power limits for a given amount of real power generation, P_{ik} are given by the straight line approximations to the generator capability curve. This can be written as,

$$Q_{gi}^{max} = K_{i,0}^{max} + K_{i,1}^{max} \sum_{k \in B_i} P_{ik} \quad (3.4)$$

$$Q_{gi}^{min} = K_{i,0}^{min} + K_{i,1}^{min} \sum_{k \in B_i} P_{ik} \quad (3.5)$$

where $K_{i,0}^{max}$, $K_{i,0}^{min}$, $K_{i,1}^{max}$ and $K_{i,1}^{min}$ are the coefficients of the straight line approximation.

3.3 OPF Problem

As discussed in Appendix B, the OPF problem can be written as a problem of minimizing the total cost of real and reactive power production subject to real and reactive power balance at all nodes, real power generation is within the limits specified by the bid quantity, reactive power generation is within limits, and the voltages are within specified limits.

Minimize:

$$J = \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \sum_{i \in I} S_i^Q Q_{g2i}$$

Subject to:

$$\sum_{k \in B_i} P_{ik} - P_{Di} = \sum_{ij \in T_i} V_i [g_{ij}(V_i - V_j \cos \theta_{ij}) - b_{ij} V_j \sin \theta_{ij}] \quad \forall i$$

$$Q_{gi} - Q_{Di} = \sum_{ij \in T_i} V_i [-b_{ij}(V_i - V_j \cos \theta_{ij}) - g_{ij} V_j \sin \theta_{ij}] \quad \forall i$$

$$\begin{aligned}
0 \leq P_{ik} \leq P_{ik}^B & \quad \forall i, \forall k \quad (\text{bid quantity limit}) \\
Q_{gi} = Q_{g1i} + Q_{g2i} & \quad \forall i \quad (\text{total reactive power}) \quad (3.6) \\
Q_{gi}^{min} \leq Q_{gi} \leq Q_{gi}^{max} & \quad \forall i \quad (\text{reactive power limits}) \\
Q_{g1i} \leq \left(\sum_{k \in B_i} P_{ik} \right) K_i^Q & \quad \forall i \quad (\text{Reactive Power Block 1}) \\
V_i^{min} \leq V_i \leq V_i^{max} & \quad \forall i \quad (\text{voltage limits})
\end{aligned}$$

Where Q_{gi}^{max} and Q_{gi}^{min} are given in (3.4) and (3.5) respectively. For simplicity of presentation, line flow limits have been ignored in the above formulation. However, line flow constraints, $-PF_{ij}^{max} \leq PF_{ij} \leq PF_{ij}^{max}$ can be directly incorporated into (3.6) in order to take line congestion into account.

The Lagrangian for the above OPF can be written as:

$$\begin{aligned}
L = & \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \sum_{i \in I} S_i^Q Q_{g2i} \\
& + \sum_{i \in I} \lambda_i \left[- \sum_{k \in B_i} P_{ik} + P_{Di} + \sum_{ij \in T_i} V_i [g_{ij}(V_i - V_j \cos \theta_{ij}) - b_{ij} V_j \sin \theta_{ij}] \right] \\
& + \sum_{i \in I} \sigma_i \left[-Q_{g1i} - Q_{g2i} + Q_{Di} + \sum_{ij \in T_i} V_i [-b_{ij}(V_i - V_j \cos \theta_{ij}) - g_{ij} V_j \sin \theta_{ij}] \right] \\
& + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^+ (P_{ik} - P_{ik}^B) + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^- (-P_{ik}) \quad (3.7) \\
& + \sum_{i \in I} \eta_i^+ (Q_{g1i} + Q_{g2i} - Q_{gi}^{max}) + \sum_{i \in I} \eta_i^- (Q_{gi}^{min} - Q_{g1i} + Q_{g2i}) \\
& \quad + \sum_{i \in I} \gamma_i (Q_{g1i} - K_i^Q \sum_{k \in B_i} P_{ik}) \\
& + \sum_{i \in I} \phi_i^+ (V_i - V_i^{max}) + \sum_{i \in I} \phi_i^- (V_i^{min} - V_i)
\end{aligned}$$

where $\lambda_i, \sigma_i, \beta_{ik}, \eta_i, \gamma_i$, and ϕ_i are the Lagrange multipliers associated with constraints of the OPF problem.

The optimal solution must satisfy the following KKT optimality conditions (see Appendix B for more detail).

$$\frac{\partial L}{\partial P_{ik}} = S_{ik}^B - \lambda_i + \beta_{ik}^+ - \beta_{ik}^- - \eta_i^+ \left(\frac{\partial Q_{gi}^{max}}{\partial P_{ik}} \right) + \eta_i^- \left(\frac{\partial Q_{gi}^{min}}{\partial P_{ik}} \right) - \gamma_i (K_i^Q) = 0 \quad (3.8)$$

$$\frac{\partial L}{\partial Q_{g1i}} = -\sigma_i + \eta_i^+ - \eta_i^- + \gamma_i = 0 \quad (3.9)$$

$$\frac{\partial L}{\partial Q_{g2i}} = S_i^Q - \sigma_i + \eta_i^+ - \eta_i^- = 0 \quad (3.10)$$

$$\begin{aligned} \frac{\partial L}{\partial V_i} &= \lambda_i \sum_{ij \in T_i} [g_{ij}(2V_i - V_j \cos \theta_{ij}) - b_{ij}V_j \sin \theta_{ij}] - \sum_{j \neq i} \lambda_j [(g_{ij}V_j \cos \theta_{ji} + b_{ij}V_j \sin \theta_{ji})] \\ &\quad - \sigma_i \sum_{ij \in T_i} [b_{ij}(2V_i - V_j \cos \theta_{ij}) + g_{ij}V_j \sin \theta_{ij}] + \sum_{j \neq i} \sigma_j [(b_{ij}V_j \cos \theta_{ji} - g_{ij}V_j \sin \theta_{ji})] \\ &\quad + \phi_i^+ - \phi_i^- = 0 \end{aligned} \quad (3.11)$$

$$\begin{aligned} \frac{\partial L}{\partial \theta_i} &= \lambda_i \sum_{ij \in T_i} [V_i(g_{ij}V_j \sin \theta_{ij} - b_{ij}V_j \cos \theta_{ij})] + \sum_{j \neq i} \lambda_j [(-g_{ij}V_iV_j \sin \theta_{ji} + b_{ij}V_iV_j \cos \theta_{ji})] \\ &\quad + \sigma_i \sum_{ij \in T_i} [V_i(-b_{ij}V_j \sin \theta_{ij} - g_{ij}V_j \cos \theta_{ij})] + \sum_{j \neq i} \sigma_j [(b_{ij}V_iV_j \cos \theta_{ji} + g_{ij}V_iV_j \sin \theta_{ji})] \\ &= 0 \end{aligned} \quad (3.12)$$

$$\frac{\partial L}{\partial \lambda_i} = \sum_{k \in B_i} P_{ik} - P_{Di} - \sum_{ij \in T_i} V_i [g_{ij}(V_i - V_j \cos \theta_{ij}) - b_{ij}V_j \sin \theta_{ij}] = 0 \quad (3.13)$$

$$\frac{\partial L}{\partial \sigma_i} = Q_{gi} - Q_{Di} - \sum_{ij \in T_i} V_i [-b_{ij}(V_i - V_j \cos \theta_{ij}) - g_{ij}V_j \sin \theta_{ij}] = 0 \quad (3.14)$$

The complementary slackness conditions are,

$$\beta_{ik}^+ (P_{ik} - P_{ik}^B) = 0 \quad (3.15)$$

$$\beta_{ik}^- (-P_{ik}) = 0 \quad (3.16)$$

$$\eta_i^+ (Q_{g1i} + Q_{g2i} - Q_{gi}^{max}) = 0 \quad (3.17)$$

$$\eta_i^- (Q_{gi}^{min} - Q_{g1i} + Q_{g2i}) = 0 \quad (3.18)$$

$$\gamma_i (Q_{g1i} - K_i^Q \sum_{k \in B_i} P_{ik}) = 0 \quad (3.19)$$

$$\phi_i^+ (V_i - V_i^{max}) = 0 \quad (3.20)$$

$$\phi_i^- (V_i^{min} - V_i) = 0 \quad (3.21)$$

Further,

$$\beta_{ik}^+ \beta_{ik}^- = 0 \implies \beta_{ik} = \beta_{ik}^+ - \beta_{ik}^-$$

$$\eta_i^+ \eta_i^- = 0 \implies \eta_i = \eta_i^+ - \eta_i^-$$

$$\phi_i^+ \phi_i^- = 0 \implies \phi_i = \phi_i^+ - \phi_i^-$$

From (3.4) and (3.5),

$$\frac{\partial Q_{gi}^{max}}{\partial P_{ik}} = K_{i,1}^{max} \quad (3.22)$$

$$\frac{\partial Q_{gi}^{min}}{\partial P_{ik}} = K_{i,1}^{min} \quad (3.23)$$

If Block 1 Reactive Power is not fully used (i.e., $Q_{g2} = 0$), then (3.10) is not relevant. As the generator has not reached the maximum amount of Block 1, the Lagrange multiplier associated with this constraint, γ_i and the Lagrange multiplier associated with the reactive power capability limit η_i^+ are zero.

Therefore, for the operation within the Reactive Power Block 1 region, (3.8) and (3.9) become:

$$\lambda_i = S_{ik}^B + \beta_{ik} \quad (3.24)$$

$$\sigma_i = 0 \quad (3.25)$$

However, when $Q_{g2} > 0$, (3.10) is also valid and when combined with (3.9) yields,

$$\gamma_i = S_i^Q \quad (3.26)$$

Therefore, (3.8) and (3.9) can be written as,

$$\lambda_i = S_{ik}^B + \beta_{ik} - \eta_i K_{i,1}^{max/min} - \gamma_i K_i^Q \quad (3.27)$$

$$\sigma_i = \eta_i + \gamma_i \quad (3.28)$$

λ_i 's and σ_i 's are the multipliers associated with the real power balance and reactive power balance equations. Therefore, they indicate the LMP of real power and reactive power respectively at the corresponding bus. This shows that by combining real and reactive power dispatch, the marginal pricing can be applied for reactive power as well. Thus, the LMP of reactive power indicates the marginal cost of delivered reactive power to a given location in the system.

The first two terms in (3.27) represent the marginal price of the supply bid; the next term represents the component of price due to operating the generator at the capability limit; and the final term represents the component of price due to the constraint on Reactive Power Block 1, which depends on real power generation.

Similarly, in the reactive power price given in (3.28), the first term represents the component of price due to operating the generator at the capability limit; and the second term represents the price of Block 2 Reactive Power.

3.4 Results

This section presents a case study to analyze the different price components produced by the proposed simultaneous real and reactive power dispatch model. In the presentation of results, all the real and reactive power values are in MW or MVar, prices are in \$/h and marginal prices are in either \$/MWh or \$/MVarh depending on the quantity considered.

The simultaneous dispatch model was applied to the IEEE 30 bus system shown in Appendix A using the generator bid data given in table 3.1 to represent the competitive electricity market. There are six generator buses and it is assumed that each generator offers two bids. This assumption, however, does not affect the validity of the analysis presented. The reactive power details for the six generators are given in table 3.2. The value of S_i^Q is chosen to be approximately 10 % of the real power cost as in [40]. The maximum and minimum voltage limits of each bus are set to 1.05 pu and 0.95 pu respectively. The OPF was solved using the developed software tool

explained in Chapter 6 and the results were validated using GAMS MINOS5 solver [62] by modeling the OPF in the GAMS environment.¹

Table 3.1: Generator bid data

Bus	bid 1		bid 2	
	P_{ik}^B	S_{ik}^B	P_{ik}^B	S_{ik}^B
1	40	3.60	40	5.20
2	40	3.20	40	4.60
13	20	4.00	20	5.00
22	25	4.10	25	7.25
23	15	3.75	15	4.75
27	27.5	3.70	27.5	4.20

Table 3.2: Reactive power generation data

Bus	$K_{i,0}^{max}$	$K_{i,1}^{max}$	$K_{i,0}^{min}$	$K_{i,1}^{min}$	K_i^Q	S_i^Q
1	40	-0.2	-40	0.2	0.3	0.47
2	40	-0.2	-40	0.2	0.3	0.67
13	30	-0.2	-30	0.2	0.3	0.44
22	30	-0.1	-30	0.2	0.3	0.52
23	20	-0.2	-20	0.2	0.3	0.22
27	35	-0.3	-30	0.2	0.3	0.36

Tables 3.3 and 3.4 show the optimal dispatch and the values of the Lagrangian multipliers, in which the cheaper bid of each unit has been fully dispatched and the second bid from generators at bus 2 and 27 have been partially dispatched. Therefore, both generators 2 and 27 become marginal generators. This is because the reactive load is locally supported by the inexpensive generator at bus 27 and in order to make that provision the real power dispatch is compromised. The remaining real power is now coming from the next cheapest available bid which is at bus 2. The reactive power dispatch of generator 27 given in table 3.3 and the non-zero Lagrangian multiplier (i.e., η_{27}^+) given in table 3.4 also reveal that Block 1 Reactive Power and Block 2 Reactive Power are fully dispatched and the generator is operating at its capability limit.

¹Generalized Algebraic Modeling Systems (GAMS) is a commercially available software platform for mathematical programming.

CHAPTER 3 - INCORPORATING REACTIVE POWER IN MARKET DISPATCH

Table 3.3: Generation dispatch with the proposed simultaneous model

Bus	bid 1	bid 2	Q_{g1}	Q_{g2}	Q_g^{max}	λ	σ
1	40.00	0.00	12.00	15.05	32.00	4.412	0.470
2	40.00	13.97	16.19	0.00	29.21	4.449	0.503
13	20.00	0.00	6.00	13.01	26.00	4.560	0.440
22	25.00	0.00	7.50	13.03	27.50	4.603	0.520
23	15.00	0.00	4.50	12.50	17.00	4.558	0.419
27	27.50	9.17	11.00	13.00	24.00	4.429	0.482

Table 3.4: Values of the multipliers given by the OPF

Bus	bid 1		bid 2		η_i^+	η_i^-	γ_i
	β_{ik}^-	β_{ik}^+	β_{ik}^-	β_{ik}^+			
1	0	0.953	0.647	0	0	0	0.470
2	0	1.400	0	0	0	0	0.503
13	0	0.692	0.308	0	0	0	0.440
22	0	0.659	2.491	0	0	0	0.520
23	0	0.835	0.165	0	0.199	0	0.220
27	0	0.800	0	0	0.122	0	0.360

On the other hand, if the dispatch is done based on the sequential approach, bid 2 of the generator at bus 2 is not dispatched while bid 2 of the generator at bus 27 is dispatched to a higher generation level. As far as the real power dispatch is concerned, this sequential dispatch is preferred, as the cheaper bids are dispatched ahead of the expensive bids. However, when accruing the required reactive power subsequently, the cheaper reactive power of generator at bus 27 cannot be utilized due to the higher real power dispatch of that generator. Thus, the ISO has to procure the reactive power from the next available generators at a higher price or from the generator at bus 27 by curtailing the real power dispatch. However, in order to curtail the real power, the associated opportunity cost has to be paid by the ISO.

Therefore, if the dispatch is done without considering the reactive power and then adjusted to satisfy the reactive power requirement, some participants will be benefited at the expense of the others and the overall dispatch is also inferior to that of simultaneous dispatch. Theoretically, the best solution that the two step approach can achieve is the solution of simultaneous dispatch. As illustrated above, there is no guarantee that the two step approach gives the same result as the simultaneous

dispatch.

3.4.1 Analysis of Price Components

Using (3.27), (3.28), and the OPF results given in tables 3.3 and 3.4, different price components of real and reactive power can be analyzed as shown below. The buses 2, 1, and 27 have been chosen for the analysis due to their unique features.

Bus 2 has a partially dispatched real power bid. The Block 1 Reactive Power is fully dispatched and the Block 2 Reactive Power is not dispatched at all due to the high Block 2 Reactive Power price. Therefore,

$$\beta_{ik} = 0; \quad \eta_i = 0$$

The real power LMP can be calculated from (3.27):

$$\lambda_i = S_{ik}^B - \gamma_i(K_i^Q)$$

$$\lambda_2 = 4.6 - 0.503 \times 0.3 = 4.449$$

The term $\gamma_i.K_i^Q$ represents the value of free reactive power available to the system due to the increase in real power generation. Therefore, the cost of real power at bus 2 is 4.449, even though the bid price for real power is 4.6.

For reactive power, (3.28) gives:

$$\sigma_i = \gamma_i \Rightarrow \sigma_2 = 0.503$$

This gives the reactive power LMP at bus 2 as 0.503, which is less than the price of Block 2 Reactive Power at bus 2 indicating that any increase in reactive power demand at bus 2 will be supplied by some other cheaper generator in the system.

The situation at bus 1 is slightly different, where only the first real power bid is fully dispatched and the second real power bid is not dispatched. Further, Block 1

CHAPTER 3 - INCORPORATING REACTIVE POWER IN MARKET
DISPATCH

Reactive Power is fully dispatched and Block 2 Reactive Power is partially dispatched (maximum reactive power limit has not been reached).

From (3.27), the real power LMP can be calculated as:

$$\lambda_i = S_{ik}^B + \beta_{ik} - \gamma_i(K_i^Q)$$

$$\lambda_1 = 3.6 + 0.953 - 0.47 \times 0.3 = 4.412$$

The second component of λ_1 (i.e., 0.953) is the shadow cost of supply offer. This factor represents the marginal value of the offer to the whole system.

$$\sigma_i = \gamma_i \Rightarrow \sigma_1 = 0.47$$

The reactive power LMP at bus 1 is equal to the price of Block 2 Reactive Power at bus 1 indicating that any increase in reactive power demand at bus 1 will be supplied by the generator connected to bus 1.

Similar to bus 2, bus 27 also has a marginal real power generator. However, both Block 1 Reactive Power and Block 2 Reactive Power at bus 27 are fully dispatched and generator 27 is operating at the capability limit. Therefore,

$$\beta_{ik} = 0.800; \quad \eta_i = 0.122$$

$$\lambda_i = S_{ik}^B + \beta_{ik} - \eta_i K_{i,1}^{max/min} - \gamma_i(K_i^Q)$$

$$\lambda_{27} = 3.7 + 0.800 + 0.3 \times 0.122 - 0.30 \times 0.36 = 4.429$$

$$\sigma_i = \gamma_i + \eta_i \Rightarrow \sigma_2 = 0.36 + 0.122 = 0.482$$

Therefore, at bus 27, both real and reactive power LMPs have a positive component of price due to operating the generator at the capability limit, causing an increase in both real and reactive power price. This is because the reactive power

availability is decreased as the generation is increased, indicating that any increase in generation is discouraged when there is a reactive power shortage.

The lower limit of reactive power is important when generators are absorbing reactive power. Typically, generators supply reactive power and hence the lower limit becomes irrelevant. Therefore, in the above analysis, the typical situation is considered. However, the same analysis can be done, when generators are absorbing reactive power as well.

The real and reactive power LMPs for all the buses can be summarized as shown in table 3.5. These values can also be analytically obtained by solving (3.11) and (3.12).

Table 3.5: Real and reactive power LMPs

Bus	LMP		Bus	LMP		Bus	LMP	
	Real	Reactive		Real	Reactive		Real	Reactive
1	4.41	0.47	11	4.61	0.55	21	4.62	0.54
2	4.45	0.50	12	4.58	0.49	22	4.60	0.52
3	4.53	0.52	13	4.56	0.44	23	4.56	0.42
4	4.55	0.53	14	4.65	0.50	24	4.60	0.51
5	4.53	0.54	15	4.63	0.49	25	4.51	0.51
6	4.57	0.55	16	4.63	0.53	26	4.59	0.56
7	4.60	0.57	17	4.65	0.56	27	4.43	0.48
8	4.60	0.58	18	4.71	0.54	28	4.55	0.54
9	4.61	0.55	19	4.73	0.56	29	4.58	0.62
10	4.63	0.55	20	4.71	0.56	30	4.59	0.63

3.4.2 Market Signals Produced by the Proposed Model

If the Block 1 Reactive Power is sufficient to supply the total reactive power demand, then according to (3.27), λ_i does not show any reactive power component. The reactive power LMP, σ_i , is also zero. Therefore, the price of electricity is only due to the dispatched real power. However, if at least one generator is providing Block 2 Reactive Power, then, there will be a component in the real power LMP. The reactive power LMP is also non-zero (note that reactive power LMP is γ_i when the generator is supplying reactive power and $-\gamma_i$ when the generator is absorbing reactive power).

This shows that when the reactive power LMP is positive (i.e., generating), consumers at that location are encouraged to consume less reactive power to improve the power factor, and when the reactive power LMP is negative (i.e., absorbing), consumers are encouraged to consume more reactive power to improve the power factor.

If a particular generator is operating at its upper capability limit (i.e., $\eta_i^+ \neq 0$), then according to (3.27) the real power LMP does show an additional component (i.e., $-\eta_i^+ K_{i,1}^{max}$). Since $K_{i,1}^{max}$ is negative this component is positive and that increases the real power LMP. Since η_i^+ also appears in the reactive power LMP, the reactive power price is also high and therefore, the consumers are encouraged to consume less reactive power. This is because, when the generator is operating at its upper capability limit, the reactive power availability is decreased as the generation is increased indicating that any increase in generation is discouraged when there is a reactive power shortage.

On the other hand, if a generator is operating at its lower capability limit (i.e., $\eta_i^- \neq 0$), the real power LMP also has an additional component $\eta_i^- K_{i,1}^{min}$. Since $K_{i,1}^{min}$ is positive this component is positive and that increases the real power LMP. Since η_i^- is also appearing in the reactive power LMP, the reactive power LMP is further negative and therefore, the consumers are encouraged to consume more reactive power.

As mentioned earlier, the value of K_i^Q has an important role to play under the competitive market environment and should be specified as a market rule. According to (3.27), if the value of K_i^Q is sufficiently large to make Block 1 Reactive Power alone enough for the dispatch, then the real power LMP will not show the reactive power component. In practice, this is not possible as this requires generators to operate at low power factors leading to low efficiency.

3.5 Concluding Remarks

A new reactive power model considering both the capability of the synchronous generator and the fairness of reactive power supply obligation in a competitive market environment has been introduced in this chapter. The model has been proposed for

CHAPTER 3 - INCORPORATING REACTIVE POWER IN MARKET DISPATCH

simultaneous dispatch of real and reactive power. The main features of this model are, (a) generators are not required to supply reactive power free of charge when they are not supplying real power, (b) generators are required to make a minimum amount of reactive power available to the system and this amount is proportional to the real power, (c) the maximum limit of the reactive power is determined by the capability curve of the generator and is dependent on the real power generation.

In summary, the opportunity cost of supplying reactive power is implicitly modeled using the physical constraint related to the rating of the machine. The fairness of reactive power supplying obligation is ensured by the Block 1 Reactive power.

A case study has been presented using the proposed reactive power model . Based on the results, it has been shown that, (a) real power LMP has a reactive power component, (b) LMP for reactive power can also be defined, and (c) sequential dispatch may give rise to an unfair advantage for some participants, and the overall dispatch is also inferior to that of simultaneous dispatch.

Chapter 4

Incorporating Dynamic Security in Market Dispatch

The security of a power system is a measure of risk of interruption in an event of a contingency [44]. A secured power system operates without interrupting participant's requirements and survives during a disturbance by settling to a new operating condition in which none of the system physical constraints are violated. Unlike in a single owner electricity industry, maintaining the secure operation of the power system is a challenging task in the competitive electricity market. This is because, each market participant has its own individual interests in maximizing the profits, which could possibly override the system security requirements.

The ISO has the responsibility of ensuring the security of the system, so that sufficient safety margin is maintained in allocating market driven transactions. The security assessment in ensuring the security of the system can be broadly categorized as static security assessment and dynamic security assessment. Static security assessment determines whether the steady state post-disturbance conditions violate any device limits or voltage limits, and dynamic security assessment determines whether the power system reaches an acceptable operating condition after the transition [44].

The static security of the dispatch is easily assured by including the static security constraints in the OPF using sensitivity factors [45]. However, Dynamic Security

Constraints (DSCs) are not used in the traditional OPF, due to the unavailability of such a constraint in the functional form compatible with the OPF.

The current industry practice of determining a generation dispatch that is secure from a dynamic stability point of view is by performing a dynamic stability simulation after solving the OPF [46], [47], or by performing the generation dispatch by some other means. In the former approach, if the solution is unstable against a credible contingency, then the solution is modified, so that the new solution is stable. These modifications are based on engineering experience and judgments using a trial and error approach. This is a time consuming process and cannot guarantee the accuracy of the modified result. In the latter approach, ‘nomograms’ commonly used in industry are translated into constraints and are used in the dispatch algorithms. However, ‘nomograms’ are two variable linear approximations to the stability boundary and thus, do not accurately represent the nonlinear nature of such a boundary [48].

Recently, due to the restructuring of the power industry and the availability of fast computers, there has been a motivation towards the development of Dynamic Security Constrained Optimal Power Flow (DSCOPF) programs [49], [50]. In contrast to the traditional sequential OPF, where the solution is adjusted by some other way to ensure the dynamic security, the DSCOPF determines the same in a single step. This is achieved by incorporating the differential equations governing the dynamics of the system into the OPF in the form of difference equations. The disadvantages of this approach are (1) replacing the differential equations by difference equations in solving the problem sacrifices accuracy, (2) there are convergence difficulties due to the introduction of a large number of variables and equations to the original OPF problem [49], [50], and (3) the approach uses simplified models of power system devices to reduce the computational burden.

A novel technique to derive an accurate transient stability boundary for a given credible contingency is proposed in [51], which can be readily used as a constraint in the DSCOPF. In this way, for each credible contingency, a separate DSC can be

derived to incorporate in the OPF. The advantage is that dynamic security of the system for a given credible contingency is modeled in the OPF using a single function of power system variables, and consequently a secured generation dispatch can be obtained in a single step.

The rest of the chapter is organized as follows. A brief introduction to the DSC is given in Section 4.1. The DSCOPF is then presented in Section 4.2. Finally a case study using IEEE New-England 39 bus system is presented in Section 4.3 to demonstrate the effects of DSC in market dispatch.

4.1 Dynamic Security Constraint

This section briefly explains how to derive an accurate transient stability boundary for a given credible contingency. A detailed derivation of this method is given in [52], where the theoretical formulation of statistical learning is explained and the application of this theory to IEEE New-England 39 bus system and a 470 bus system is presented.

An operating point of a power system can be uniquely defined using $2 * nbus - 1$ number of variables, where $nbus$ is the number of buses in the system. For example, if the bus voltage magnitudes and bus voltage angles (with angles measured with respect to the reference bus) are known, an operating point can be uniquely defined and every other variable can be calculated. An operating point vector: \mathbf{x} in the $2 * nbus - 1$ Euclidean space (where the co-ordinate axes represent the power system variables) can be identified either as stable or as unstable depending on whether the power system is transiently stable or not in an event of a specific contingency [44].

The boundary that separates the transiently stable region from the transiently unstable region is the DSC. The estimated function given in (4.1) is used to approximate the Critical Clearing Time (CCT) corresponding to a given contingency. This approximation is an m^{th} order polynomial function and was estimated from a data sample of n training points. Note that there is an optimum value for m , where the

estimated DSC is most accurate.

$$CCT \approx \sum_{t=1}^n \alpha_t (\langle \mathbf{x}, \mathbf{x}_t \rangle + 1)^m \quad (4.1)$$

where, α_t is a set of real scalars and \mathbf{x}_t represents an operating point vector in the transient stability database. The Transient Stability Margin (TSM) is defined as the difference between the CCT and actual fault clearing time: T_{ac} of the contingency. Therefore, the approximated TSM can be written as given below.

$$TSM \approx \left[\sum_{t=1}^n \alpha_t (\langle \mathbf{x}, \mathbf{x}_t \rangle + 1)^m \right] - T_{ac} \quad (4.2)$$

An operating point in the stable operating region has a positive TSM. Therefore, the DSC can be written as given in (4.3).

$$f(\mathbf{x}) \approx \left[\sum_{t=1}^n \alpha_t (\langle \mathbf{x}, \mathbf{x}_t \rangle + 1)^m \right] - T_{ac} \geq 0 \quad (4.3)$$

Similarly, for any other credible contingency, a separate DSC can be derived. The DSC given in (4.3) is differentiable with respect to the operating point variables, and thus suitable for optimization algorithms such as Successive Linear Programming (SLP) and Newton method type algorithms. The derivative of (4.3) with respect to a variable x_p (essentially a voltage magnitude or a bus voltage angle) can be written as,

$$\frac{\partial f(\mathbf{x})}{\partial x_p} \approx \left[\sum_{t=1}^n \alpha_t m (\langle \mathbf{x}, \mathbf{x}_t \rangle + 1)^{m-1} x_{t,p} \right] \quad (4.4)$$

4.2 OPF Problem

After including the above DSC, the OPF problem can be written as given in (4.5)¹.

¹Note that the reactive power model discussed in Chapter 3 is not considered in this OPF formulation.

Minimize:

$$J = \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \sum_{i \in I} Q_{gi} S_i^Q$$

Subject to:

$$\begin{aligned} \sum_{k \in B_i} P_{ik} - P_{Di} &= \sum_{ij \in T_i} V_i [g_{ij} (V_i - V_j \cos \theta_{ij}) - b_{ij} V_j \sin \theta_{ij}] & \forall i \\ Q_{gi} - Q_{Di} &= \sum_{ij \in T_i} V_i [-b_{ij} (V_i - V_j \cos \theta_{ij}) - g_{ij} V_j \sin \theta_{ij}] & \forall i \\ 0 \leq P_{ik} &\leq P_{ik}^B & \forall i, \forall k \\ -PF_{ij}^{max} &\leq PF_{ij} \leq PF_{ij}^{max} & \forall (i, j) \subset T \\ V_i^{min} &\leq V_i \leq V_i^{max} & \forall i \\ f(\mathbf{x}) &= \left[\sum_{t=1}^n \alpha_t (\langle \mathbf{x}, \mathbf{x}_t \rangle + 1)^2 \right] - T_{ac} \geq 0 \\ PF_{ij} &= g_{ij} (V_i^2 - V_i V_j \cos \theta_{ij}) - b_{ij} V_i V_j \sin \theta_{ij} & \forall (i, j) \subset T \end{aligned} \quad (4.5)$$

In (4.5), only one DSC is included to clearly demonstrate the formulation of the OPF.

Typically, for a given power system, there can be several credible contingencies, which are identified based on historical information. Inclusion of DSCs corresponds to all the credible contingencies, however, increases the complexity of the OPF problem, and hence requires more execution time. On the other hand, neglecting the critical contingencies result in insecure operation of the power system. Each of these contingencies has a different risk associated with ignoring them, which depends on the probability of the contingency occurring and the cost of exposing the power system to that contingency. Thus, choosing the correct credible contingencies is also an important issue, which is not discussed in this thesis.

The Lagrangian for the above problem can be written as:

$$\begin{aligned}
L = & \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \sum_{i \in I} Q_{gi} S_i^Q \\
& + \sum_{i \in I} \lambda_i \left[- \sum_{k \in B_i} P_{ik} + P_{Di} + \sum_{ij \in T_i} V_i [g_{ij} (V_i - V_j \cos \theta_{ij}) - b_{ij} V_j \sin \theta_{ij}] \right] \\
& + \sum_{i \in I} \sigma_i \left[-Q_{gi} + Q_{Di} + \sum_{ij \in T_i} V_i [-b_{ij} (V_i - V_j \cos \theta_{ij}) - g_{ij} V_j \sin \theta_{ij}] \right] \\
& + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^+ (P_{ik} - P_{ik}^B) + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^- (-P_{ik}) \\
& + \sum_{ij \in T} \mu_{ij}^+ (PF_{ij} - PF_{ij}^{max}) + \sum_{ij \in T} \mu_{ij}^- (-PF_{ij}^{max} - PF_{ij}) \\
& + \sum_{i \in I} \phi_i^+ (V_i - V_i^{max}) + \sum_{i \in I} \phi_i^- (V_i^{min} - V_i) \\
& + \gamma \left[\sum_{t=1}^n \alpha_t (\langle \mathbf{x}, \mathbf{x}_t \rangle + 1)^2 \right] - T_{ac}
\end{aligned} \tag{4.6}$$

By solving the KKT conditions of (4.6), the secured generation dispatch against the considered contingency can be obtained.

4.3 Case Studies and Results

This section presents a case study to demonstrate the application of DSC in market dispatch. For the following analysis, a competitive electricity market is modeled for the New-England 39 bus system shown in Appendix A, using price-quantity bids for the generators as given in table 4.1. The reactive power is considered as free from the generators. In the presentation of results, all the real and reactive power values are in MW or MVar, voltages are in pu, prices are in \$/h and marginal prices are in \$/MWh, \$/MVarh or \$/pu.h depending on the quantity considered. The DSC is incorporated in the OPF as explained in Section 4.2 to ensure the dynamic security of the power system. The maximum and minimum voltage limits of each bus are set to 1.10 pu and 0.90 pu respectively and a line limit of 1000 MW is imposed on each

line. A higher line limit of 1000 MW is purposely selected, so that the effects of the binding line flow constraints can be overridden, as the main objective is to study the effects of the DSC (note that in Section 3.3, the line flow limits were not included in the OPF formulation, to override the line flow constraints).

The contingency considered in this analysis is a three-phase-to-ground fault on the line connecting bus 16 to bus 24 near bus 16 and the fault is cleared by opening the faulted line after 10 cycles. Therefore, in the OPF formulation the lower limit of the DSC is taken as 10 cycles (which is T_{ac}) and the upper limit is set to infinity. This implies that if the estimated CCT for a given operating point is greater than or equal to the fault clearing time, then the system is transiently stable.

The OPF was solved using the developed software tool explained in Chapter 6 and the results were validated using GAMS MINOS5 solver [62] by modeling the OPF in the GAMS environment.

Table 4.1: Generator bid data

Bus	bid 1		bid 2	
	P_{ik}^B	S_{ik}^B	P_{ik}^B	S_{ik}^B
30	250	3.6	750	5.2
31	500	3.2	500	4.2
32	600	4.0	400	5.4
33	550	3.8	450	7.25
34	500	3.75	500	4.9
35	650	3.7	350	5.05
36	500	3.8	500	7.4
37	550	2.9	450	5.0
38	900	3.8	100	8.2
39	500	3.9	500	4.1

The following 3 cases are considered.

1. Case 1: OPF without the DSC
2. Case 2: OPF with the DSC representing the Contingency
3. Case 3: OPF with the DSC representing the same Contingency, but the fault is cleared 1 cycle faster

Table 4.2: Generation dispatch

Bus	Generation dispatch (MW)					
	Case 1		Case 2		Case 3	
	bid 1	bid 2	bid 1	bid 2	bid 1	bid 2
30	250.00	0.00	250.00	350.15	250.00	269.69
31	500.00	139.03	500.00	292.42	500.00	359.72
32	600.00	0.00	600.00	0.00	600.00	0.00
33	550.00	0.00	550.00	0.00	550.00	0.00
34	500.00	0.00	0.00	0.00	13.07	0.00
35	650.00	0.00	650.00	0.00	650.00	0.00
36	500.00	0.00	500.00	0.00	500.00	0.00
37	550.00	0.00	550.00	0.00	550.00	0.00
38	900.00	0.00	900.00	0.00	900.00	0.00
39	500.00	500.00	500.00	500.00	500.00	500.00
Total dispatch	6139.03		6142.57		6142.48	
Total cost	22768.94		23358.93		23272.25	

Table 4.2 shows the generation dispatch and the total generation cost for the three cases. In Case 1, there is only one marginal bid, which is at bus 31 (i.e., 2nd bid). It can be seen from table 4.2 and the generator bids given in table 4.1, that the generation dispatch in Case 1 is according to the merit order where cheaper bids are dispatched before more expensive bids. This is expected, because in the OPF formulation the transmission line congestion has been overridden. In general, the losses in the system could result in out of merit order dispatch, but in this case the effect of losses has not been significant enough to cause an out of merit order dispatch. The total dispatch is 6139.03 MW and the total cost of generation is 22768.94.

In Case 2, where the OPF is solved with DSC, the generation dispatch deviates from the merit order significantly as seen in table 4.2. The cheaper generation at bus 34 (i.e., 1st bid) is not dispatched at all, while the expensive generation at buses 30 (i.e., 2nd bid) and 31 (i.e., 2nd offer) are partly dispatched. This is expected because the power system operates on the DSC, as evident from the non-zero marginal cost of DSC ($\gamma = 94.51$). The marginal cost of 94.51 implies that the cost of operation can be reduced by that amount if the fault could be cleared 1 cycle faster. Table 4.2 also reveals that the total losses in Case 2 are slightly higher than in Case 1 (note that

CHAPTER 4 - INCORPORATING DYNAMIC SECURITY IN MARKET DISPATCH

the total dispatch in Case 2 is 6142.57 MW, whereas in Case 1 it is 6139.03 MW). Further, the total cost of generation is also increased to 23358.93.

In Case 3, when the breaker operates 1 cycle faster in clearing the fault, the DSC is still binding as seen from the out of merit order dispatch given in table 4.2. It can be seen that the cheaper bid at bus 34 (i.e., 1st bid) is now partly dispatched, while there is reduction in expensive bids. The total cost of generation is also reduced by 86.68 (i.e., 23358.93 – 23272.25). This is the amount saved due to the fault being cleared 1 cycle faster, which is approximately equal to the γ value in Case 2 (i.e., $\gamma=94.51$). The slight difference in these two amounts is due to the linearization.

Table 4.3: LMPs for the three cases

Bus	Case			Bus	Case			Bus	Case		
	1	2	3		1	2	3		1	2	3
1	4.22	5.68	5.62	14	4.20	4.97	4.98	27	4.17	4.84	4.89
2	4.19	5.19	5.19	15	4.21	4.91	4.95	28	4.05	4.75	4.81
3	4.22	5.11	5.11	16	4.19	4.81	4.87	29	4.01	4.73	4.79
4	4.22	5.04	5.03	17	4.19	4.88	4.92	30	4.19	5.20	5.20
5	4.21	4.95	4.93	18	4.21	4.96	4.99	31	4.20	4.20	4.20
6	4.20	4.89	4.88	19	4.13	4.85	4.93	32	4.17	4.77	4.79
7	4.22	5.02	5.00	20	4.14	5.02	5.11	33	4.11	4.33	4.47
8	4.23	5.09	5.07	21	4.16	4.66	4.74	34	4.11	3.46	3.75
9	4.23	5.63	5.57	22	4.13	4.47	4.57	35	4.13	4.36	4.47
10	4.17	4.87	4.88	23	4.13	4.47	4.57	36	4.11	4.21	4.34
11	4.18	4.89	4.88	24	4.19	4.76	4.83	37	4.04	4.97	4.96
12	4.18	4.94	4.93	25	4.07	5.04	5.04	38	3.96	4.35	4.47
13	4.18	4.91	4.91	26	4.11	4.87	4.91	39	4.23	5.84	5.77

The LMPs at each bus for the three cases are given in table 4.3. It reveals that except at bus 34, higher LMPs are resulted in Case 2 and Case 3 due to the binding DSC. However at bus 34, LMP in Case 2 and Case 3 are lower than that of Case 1. This is because in Case 2, due to the binding DSC, the cheaper generator at bus 34 is not dispatched, enabling it to cater any increase in load at bus 34. Alternatively, in Case 1, bid 1 at bus 34 is fully dispatched and any increase in load at bus 34 has to be supplied from the next available generator which is bid 2 at bus 31, having a higher bid price. Same explanation can be given for the Case 3 as well.

The difference in generation cost between Case 2 and Case 3 reflects the effects of fast operating circuit breaker, and thus can be used to perform a cost benefit analysis of the fast operating circuit breakers. As pointed out earlier, the results of Case 1 and Case 2 could be further used in determining the associated risk in ignoring the contingency in market dispatch. This could lead to a quantitative decision of whether or not to ignore the particular contingency in market dispatch from the economical and reliability point of view.

4.4 Concluding Remarks

The incorporation of the dynamic security constraint in the OPF has been demonstrated in this chapter in order to ensure the dynamic security in market dispatch. This approach has been enabled by the availability of the dynamic security constraint in a functional form. The key advantage is that the dynamic security of the system is modeled in the OPF using a function of power system variables, and consequently a secured generation dispatch can be obtained in one step. The function used is differentiable, and thus suitable for optimization algorithms such as Sequential Linear Programming (SLP) and Newton type algorithms.

The resulting DSCOPF ensures security of the system in the event of the contingency represented by the DSC. In this way, any number of DSCs, each representing a credible contingency, can be incorporated in the OPF. A case study has been presented to demonstrate the effects of DSC on dispatch as well as on LMPs. The results of the case study revealed that the binding DSC constraint has a significant effect on LMPs for the case considered. These results could also be used in performing (a) cost benefit analysis of fast operating circuit breakers, and (b) risk analysis of ignoring the dynamic security in market dispatch.

Chapter 5

Analyzing Market Signals

The inclusion of reactive power and Dynamic Security Constraint (DSC) in market dispatch is discussed in Chapters 3 and 4 respectively. Having incorporated these constraints, this chapter investigates different methods to analyze the associated market signals. In fact, market signals are the main driving forces for the market participants to make their operational and investment decisions, which ultimately drive the market toward further competition [2]. Thus, correctly determining these market signals is an important issue in the context of restructured electricity market.

Under the present market operation, LMPs are commonly and extensively used as market signals [12]. The SMD proposed by FERC also advocates the use of LMPs in settling the transactions [5]. This is further insisted upon in their recent documents, subsequent to SMD [6], [7]. LMP at a given node of a power system is the sensitivity of operational cost to the change in load at that node, or in simple terms, the least cost of getting the next increment at that node, while respecting the constraints imposed due to the operational and the capability limits of the power system. Thus, this design provides participants with a clear signal of the price of electricity at each location [8].

While these LMPs provide valuable information at each location of the system, they do not provide a detailed description in terms of contributions coming from transmission losses and different constraints in the power system. The LMP components

proposed in [54] can be used to overcome this problem, as they show the decomposition of LMP into its contributing components due to each binding constraint. This explicit decomposition serves as better market signals for the participants than LMP itself. However, the effects of the losses cannot be seen explicitly from these components. Thus, supplementary information showing the effects of losses on LMPs is necessary in providing full insight to the operation of the electricity market.

A new method of analyzing the network rental components is presented in this chapter by determining those individual components. The network rental is the surplus solely paid by the consumers, and thus, the components of network rental show the breakdown of the network rental to each consumer due to each binding constraint and transmission losses. The key advantage is that the network rental components show how each consumer has actually overpaid due to marginal losses and each binding constraint. Thus, unlike in LMP components, network rental components show the effects of losses explicitly as a separate component.

In order to proceed with this analysis, the components of network rental must be correctly determined. It is however, found that the available methods are not sufficient in determining these components, specially when the general NLP-OPF is considered, where different types of constraints contribute to the network rental. Thus, a new method to determine these network rental components is proposed in this chapter.

This chapter is organized as follows. The existing method of analyzing LMP components is explained in Section 5.1 together with some examples to show how these individual components are calculated. Section 5.2 presents the concept of network rental and then the calculation of components of network rental using a LP-OPF is investigated in Section 5.3. The novel technique to determine the components of network rental based on NLP-OPF is then proposed in Section 5.4. Some case studies are also presented in Section 5.4 for a clear understanding of the proposed method.

5.1 LMP Components

5.1.1 Traditional Approach

With the present practice, the loss factors and shift factors are used to determine the components of LMP due to losses and congestion¹ [10], [12]. Thus, the LMP at bus i can be expressed as;

$$LMP_i = LMP^{energy} + LMP^{loss} + LMP^{congestion} \quad (5.1)$$

$$LMP_i = \lambda^{ref} - LF_i \lambda^{ref} + \sum_t \mu_t SF_{it} \quad (5.2)$$

where LF_i is the loss factor at bus i and SF_{it} is the generator shift factor at bus i on line t . The value of μ_t indicates the shadow cost of the congested line t whereas λ^{ref} denotes the real power price at the reference bus.² The summation of the first two components in (5.2) is commonly known as the energy component.

The LF_i indicates the sensitivity of system losses to the change in the injection at bus i . In other words, it reflects how system losses will change due to the injection of an additional unit MW. Because the reference bus always makes up for this additional unit MW, loss factors depend on the selection of the reference bus. The SF_{it} shows how the line flow of line t is changed if the injection at bus i is pertubated. Shift factors also depend on the choice of the reference bus. Therefore, by definition the loss factor and the shift factor at the reference bus are zero.

Due to this dependency, the components calculated using this method do not reflect the true contributions of LMP at a node. In other words, even though, the LMPs are independent of the selection of the reference bus, the individual components are not independent of the selection of the reference bus [53]. This dependency indicates that the importance should be kept on the value of each component. The difference between such components at two locations are also dependent on the reference

¹The line flow limits are the only constraints considered in LP-OPF.

²The reference bus is sometimes called as the slack bus. In a power flow solution, the unknown losses in the system are assigned to the reference bus.

bus. For example, the difference between congestion cost components at two different locations does not give any valuable information at all.

The drawback in this approach is due to the fact that transmission losses are balanced at a designated reference bus whereas in reality losses are balanced according to the governing physical laws. This results in different power flows once the location of the reference bus is changed.

However, if losses are approximately balanced at bus level in a predefined way, the energy component and the congestion component can be made reference bus independent for a given loss distribution. The loss distribution factors proposed in [10] allow the explicit balance of losses at each bus, so that the dc power flow solution will be unique irrespective of the choice of the slack bus. The problem however, is that the whole process depends on the predefined loss distribution factors which do not represent how the actual losses are consumed.

The need for the reference bus can be eliminated, once the actual nonlinear power flows are considered (i.e., NLP-OPF). Further, with the NLP-OPF, the reactive power and security issues can be easily incorporated as discussed in Chapters 3 and 4. Unlike in LP-OPF where only line flow constraints are considered, with the NLP-OPF different other binding constraints also contribute to the LMP at a given location. Despite the associated difficulties in dealing with the NLP-OPF, the recent advancements in computing technology allow solving a NLP-OPF in an efficient manner.

A generalized method to unbundle LMP into its contributing components is presented in [54]. This approach is based on post processing the KKT optimality conditions of the NLP-OPF as explained below.

5.1.2 Unbundling LMP Based on KKT Conditions

The Lagrangian function for the OPF given in Appendix B (also given in Chapters 3 and 4) can be written in compact form by considering that there are N equality

constraints, R inequality constraints and M decision variables, as,

$$L = f(x) + \sum_{n=1}^N \lambda_n^T g_n(x) + \sum_{r=1}^R \mu_r^T h_r(x) \quad (5.3)$$

If the optimal solution is known, then all the binding or the active inequality constraints are also known. As the remaining inequality constraints are non-active, the Lagrangian function can be rewritten by eliminating those constraints as given in (5.4).

$$L = f(x) + \sum_{n=1}^N \lambda_n^T g_n(x) + \sum_{r=1}^{\bar{R}} \bar{\mu}_r^T \bar{h}_r(x) \quad (5.4)$$

where $\bar{h}_r(x)$ and $\bar{\mu}_r$ are the binding inequality constraints among h and their multipliers among μ respectively. The KKT optimality conditions of (5.4) can be written as,

$$\frac{\partial L}{\partial x_m} = \frac{\partial f(x)}{\partial x_m} + \sum_{n=1}^N \lambda_n^T \frac{\partial g_n(x)}{\partial x_m} + \sum_{r=1}^{\bar{R}} \bar{\mu}_r^T \frac{\partial \bar{h}_r(x)}{\partial x_r} = 0; \quad m = 1, \dots, M \quad (5.5)$$

$$\frac{\partial L}{\partial \lambda_n} = g_n(x) = 0; \quad n = 1, \dots, N \quad (5.6)$$

$$\frac{\partial L}{\partial \bar{\mu}_r} = \bar{h}_r(x) = 0; \quad r = 1, \dots, \bar{R} \quad (5.7)$$

From the Lagrangian function given in (5.4), LMP at bus i can be calculated by taking the partial derivative of L with respect to the load P_{Di} as given by (5.8). This is because, the LMP at bus i is the sensitivity of L to the change in load P_{Di} .

$$\begin{aligned} \frac{\partial L}{\partial P_{Di}} &= \sum_{m=1}^M \frac{\partial f(x)}{\partial x_m} \frac{\partial x_m}{\partial P_{Di}} + \frac{\partial f(x)}{\partial P_{Di}} \\ &+ \sum_{n=1}^N \lambda_n^T \sum_{m=1}^M \frac{\partial g_n(x)}{\partial x_m} \frac{\partial x_m}{\partial P_{Di}} + \sum_{n=1}^N \lambda_n^T \frac{\partial g_n(x)}{\partial P_{Di}} + \sum_{n=1}^N g_n(x) \frac{\partial \lambda_n}{\partial P_{Di}} \\ &+ \sum_{r=1}^{\bar{R}} \bar{\mu}_r^T \sum_{m=1}^M \frac{\partial \bar{h}_r(x)}{\partial x_m} \frac{\partial x_m}{\partial P_{Di}} + \sum_{r=1}^{\bar{R}} \bar{\mu}_r^T \frac{\partial \bar{h}_r(x)}{\partial P_{Di}} + \sum_{r=1}^{\bar{R}} \bar{h}_r(x) \frac{\partial \bar{\mu}_r}{\partial P_{Di}} \end{aligned} \quad (5.8)$$

$[\frac{\partial x_m}{\partial P_{Di}}, \frac{\partial \lambda_n}{\partial P_{Di}}, \frac{\partial \bar{\mu}_r}{\partial P_{Di}}]^T$ can be calculated by differentiating (5.5), (5.6), and (5.7) with respect to P_{Di} as given in (5.9), (5.10), and (5.11) respectively.

$$\begin{aligned} \frac{\partial^2 f(x)}{\partial x_m^2} \frac{\partial x_m}{\partial P_{Di}} + \frac{\partial^2 f(x)}{\partial x_m \partial P_{Di}} + \sum_{n=1}^N \lambda_n^T \frac{\partial^2 g_n(x)}{\partial x_m^2} \frac{\partial x_m}{\partial P_{Di}} + \sum_{n=1}^N \frac{\partial g_n(x)}{\partial x_m} \frac{\partial \lambda_n}{\partial P_{Di}} + \sum_{n=1}^N \lambda_n^T \frac{\partial^2 g_n(x)}{\partial x_m \partial P_{Di}} \\ + \sum_{r=1}^{\bar{R}} \bar{\mu}_r^T \frac{\partial^2 \bar{h}_r(x)}{\partial x_m^2} \frac{\partial x_m}{\partial P_{Di}} + \sum_{r=1}^{\bar{R}} \frac{\partial \bar{h}_r(x)}{\partial x_m} \frac{\partial \bar{\mu}_r^T}{\partial P_{Di}} + \sum_{r=1}^{\bar{R}} \bar{\mu}_r^T \frac{\partial^2 \bar{h}_r(x)}{\partial x_m \partial P_{Di}} = 0 \end{aligned} \quad m = 1, \dots, M \quad (5.9)$$

$$\sum_{n=1}^N \frac{\partial g_n(x)}{\partial x_m} \frac{\partial x_m}{\partial P_{Di}} + \frac{\partial g_n(x)}{\partial P_{Di}} = 0 \quad n = 1, \dots, N \quad (5.10)$$

$$\sum_{r=1}^{\bar{R}} \frac{\partial \bar{h}_r(x)}{\partial x_m} \frac{\partial x_m}{\partial P_{Di}} + \frac{\partial \bar{h}_r(x)}{\partial P_{Di}} = 0 \quad r = 1, \dots, \bar{R} \quad (5.11)$$

Equations (5.9), (5.10), and (5.11) can be written in matrix form as given in (5.12).

$$\begin{aligned} \begin{bmatrix} \frac{\partial^2 f(x)}{\partial x_m^2} + \sum_n \lambda_n^T \frac{\partial^2 g_n(x)}{\partial x_m^2} + \sum_r \bar{\mu}_r^T \frac{\partial^2 \bar{h}_r(x)}{\partial x_m^2} & \frac{\partial g_n(x)}{\partial x_m} & \frac{\partial \bar{h}_r(x)}{\partial x_m} \\ \frac{\partial g_n^T(x)}{\partial x_m} & 0 & 0 \\ \frac{\partial \bar{h}_r^T(x)}{\partial x_m} & 0 & 0 \end{bmatrix} \begin{bmatrix} \frac{\partial x_m}{\partial P_{Di}} \\ \frac{\partial \lambda_n}{\partial P_{Di}} \\ \frac{\partial \bar{\mu}_r}{\partial P_{Di}} \end{bmatrix} \\ = - \begin{bmatrix} \frac{\partial^2 f(x)}{\partial x_m \partial P_{Di}} + \sum_n \lambda_n^T \frac{\partial^2 g_n(x)}{\partial x_m \partial P_{Di}} + \sum_n \frac{\partial \lambda_n^T}{\partial P_{Di}} \frac{\partial g_n(x)}{\partial x_m} + \sum_r \bar{\mu}_r^T \frac{\partial^2 \bar{h}_r(x)}{\partial x_m \partial P_{Di}} + \sum_r \frac{\partial \bar{\mu}_r^T}{\partial P_{Di}} \frac{\partial \bar{h}_r(x)}{\partial x_m} \\ \frac{\partial g_n(x)}{\partial P_{Di}} \\ \frac{\partial \bar{h}_r}{\partial P_{Di}} \end{bmatrix} \end{aligned} \quad (5.12)$$

Some terms in the left hand side matrix and the right hand side array of (5.12) are zero, and thus, (5.12) can be simplified as given in (5.13).

$$\begin{bmatrix} \frac{\partial^2 f(x)}{\partial x_m^2} + \sum_n \lambda_n^T \frac{\partial^2 g_n(x)}{\partial x_m^2} & \frac{\partial g_n(x)}{\partial x_m} & \frac{\partial \bar{h}_r(x)}{\partial x_m} \\ \frac{\partial g_n^T(x)}{\partial x_m} & 0 & 0 \\ \frac{\partial \bar{h}_r^T(x)}{\partial x_m} & 0 & 0 \end{bmatrix} \begin{bmatrix} \frac{\partial x_m}{\partial P_{Di}} \\ \frac{\partial \lambda_n}{\partial P_{Di}} \\ \frac{\partial \bar{\mu}_r}{\partial P_{Di}} \end{bmatrix} = - \begin{bmatrix} 0 \\ \frac{\partial g_n(x)}{\partial P_{Di}} \\ 0 \end{bmatrix} \quad (5.13)$$

The left hand side matrix in (5.13) is a Hessian matrix at the optimal solution

with additional rows and columns corresponding to binding inequality constraints, $\overline{h}_r(x)$. The three elements shown in the right hand side vector represent three column vectors. The 0 entries represent column vectors with all the elements equal to zero. $\frac{\partial g_n(x)}{\partial P_{Di}}$ is a column vector with one entry equal to unity and the rest equal to zero. This is because the term P_{Di} appears only in the corresponding power balance equation where $n = i$.

Remark *It is important to note that the matrix in (5.13) is always non-singular irrespective of the number of binding constraints, which is explained as follows. If the number of buses and the number of generators in the system are n_{bus} and n_{gen} respectively and assuming there is only a single bid from each generator, then the sub matrix $[\frac{\partial^2 f(x)}{\partial x_m^2} + \sum \lambda_n^T \frac{\partial^2 g_n(x)}{\partial x_m^2}]$ in (5.13) has $2 * n_{gen} + 2 * n_{bus} - 1$ rows and columns (note that the size of the sub matrix is equal to the number of variables, which include generator bid quantities, reactive power generations, voltage magnitudes, and voltage angles excluding the reference bus), whereas sub matrix $\frac{\partial g_n(x)}{\partial x_m}$ has $2 * n_{gen} + 2 * n_{bus} - 1$ columns (same number of columns as above) and $2 * n_{bus}$ rows. Therefore, for the whole matrix to be non-singular, the maximum number of rows of the sub matrix $\frac{\partial \overline{h}_r(x)}{\partial x_m}$ (i.e., the number of binding inequality constraints) should be $2 * n_{gen} - 1$. If there are no binding line flows or voltage limits, then at least one real power bid is marginal resulting in less than $2 * n_{gen} - 1$ rows, and if there are r binding constraints, then there should be at least $r + 1$ marginal generators, resulting in an even fewer number of rows in $\frac{\partial \overline{h}_r(x)}{\partial x_m}$. This shows that under any circumstances, the total number of binding constraints does not exceed $2 * n_{gen} - 1$.*

Therefore, by inverting the left hand side matrix and taking the column corresponding to the non-zero element yields the array $[\frac{\partial x_m}{\partial P_{Di}}, \frac{\partial \lambda_n}{\partial P_{Di}}, \frac{\partial \overline{P}_r}{\partial P_{Di}}]^T$ as shown in (5.14).

This array shows the sensitivity of the variables in the OPF to the change in load. Thus, these sensitivities also provide some insight to the operation of the electricity

market [55].

$$\begin{bmatrix} \frac{\partial x_m}{\partial P_{Di}} \\ \frac{\partial \lambda_n}{\partial P_{Di}} \\ \frac{\partial \bar{\mu}_r}{\partial P_{Di}} \end{bmatrix} = (-1) \cdot \text{corresponding column of} \begin{bmatrix} \frac{\partial^2 f(x)}{\partial x_m^2} + \sum_n \lambda_n^T \frac{\partial^2 g_n(x)}{\partial x_m^2} & \frac{\partial g_n(x)}{\partial x_m} & \frac{\partial \bar{h}_r(x)}{\partial x_m} \\ \frac{\partial g_n^T(x)}{\partial x_m} & 0 & 0 \\ \frac{\partial \bar{h}_r^T(x)}{\partial x_m} & 0 & 0 \end{bmatrix}^{-1} \quad (5.14)$$

Equation (5.8) can be simplified using (5.10) and (5.11) as,

$$\frac{\partial L}{\partial P_{Di}} = \sum_{m=1}^M \frac{\partial f(x)}{\partial x_m} \frac{\partial x_m}{\partial P_{Di}} \quad (5.15)$$

This implies that LMP at bus i can be expressed only in terms of contributions from the marginal generators (note that $f(x)$ is only a function of generation and $\frac{\partial x_m}{\partial P_{Di}}$ equals zero for non-marginal generators). The effects of binding constraints are embedded in the contributions of marginal generators.

By removing (5.11) in determining $[\frac{\partial x_m}{\partial P_{Di}}, \frac{\partial \lambda_n}{\partial P_{Di}}, \frac{\partial \bar{\mu}_r}{\partial P_{Di}}]^T$, the contributions of binding constraints can be made explicit as seen from (5.8). Thus, the LMP at bus i can be written as,

$$\frac{\partial L}{\partial P_{Di}} = \sum_{m=1}^M \frac{\partial f(x)}{\partial x_m} \frac{\partial x_m}{\partial P_{Di}} + \sum_r \bar{\mu}_r^T \sum_{m=1}^M \frac{\partial \bar{h}_r(x)}{\partial x_m} \frac{\partial x_m}{\partial P_{Di}} \quad (5.16)$$

The first term represents the contributions coming from marginal generators whereas the remaining terms under the summation represent the contributions coming from binding inequality constraints.

However, it is important to note that even though the expressions $\sum_m \frac{\partial f(x)}{\partial x_m} \frac{\partial x_m}{\partial P_{Di}}$ and $\sum_r \bar{\mu}_r^T \sum_m \frac{\partial \bar{h}_r(x)}{\partial x_m} \frac{\partial x_m}{\partial P_{Di}}$ have a large number of terms (equal to the number of variables in the OPF problem), most of these terms become zero by application of the chain rule as explained below:

- $f(x)$ is only a function of generation. Therefore, the partial derivative of $f(x)$ with respect to any other variable is zero.

- $\overline{h_r}(x)$ always represents the limit of a variable. Therefore, it has a value only when the partial derivative with respect to the corresponding variable is considered. Further, the value of $\frac{\partial \overline{h_r}(x)}{\partial x_m}$ is either +1 or -1 depending on whether the constraint is at the maximum limit or the minimum limit.

5.1.3 Numerical Example to Evaluate the LMP Components

This section presents some case studies using a 3 bus system to analyze the components of LMP. The single line diagram of the 3 bus system with line parameters are shown in figure 5.1.

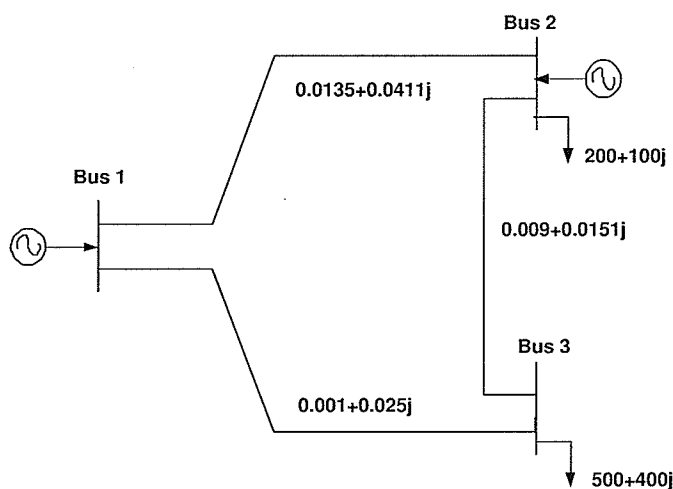


Figure 5.1: 3 bus system

In the presentation of results, all the real and reactive power values are in MW and MVar, line flows are in MW, voltages are in pu, and marginal prices are in either \$/MWh or \$/MVarh depending on the quantity considered.

There are two generators connected to buses 1 and 2, having bid data given in table 5.1. Buses 2 and 3 have real and reactive loads as shown in figure 5.1. For simplicity, a fixed reactive power cost is considered and the reactive power limits are set to ± 1000 MVar. The minimum and the maximum voltages at each bus are 0.95 pu and 1.05 pu respectively. The following two cases are considered; in Case 1, line

flow limits are ignored and in Case 2, a line limit of 300 MW is applied to all lines.

Table 5.1: Generator bid data

Bus	bid 1		bid 2		S_i^Q
	P_{ik}^B	S_{ik}^B	P_{ik}^B	S_{ik}^B	
1	250	3.6	750	5.2	0.1
2	600	3.2	400	4.2	0.2

The dispatch for the two cases together with shadow costs are shown in table 5.2.

Table 5.2: Dispatch for the Case 1 and Case 2

	Case 1		Case 2	
	Dispatch	μ	Dispatch	μ
P_{11}	117.51	0.00	250.00	1.60
P_{12}	0.00	-1.60	19.89	0.00
P_{21}	600.00	0.26	442.49	0.00
P_{22}	0.00	-0.74	0.00	1.00
Q_{g1}	535.87	0.00	487.55	0.00
Q_{g2}	33.84	0.00	75.06	0.00
V_1	1.05	160.49	1.05	191.11
V_2	1.00	0.00	1.00	0.00
V_3	0.96	0.00	0.96	0.00
PF_{12}	-16.78	0.00	59.49	0.00
PF_{13}	134.30	0.00	210.40	0.00
PF_{23}	380.79	0.00	300.00	3.72

Case 1

The dispatch and μ shown in table 5.2 reveal that the voltage at bus 1 is at the maximum limit of 1.05 pu. Bid 1 of generator 2 (i.e., P_{21}) is fully dispatched and bid 1 of generator 1 (i.e., P_{11}) is partly dispatched. This is expected, as the bids are dispatched according to the merit order in the absence of line flow limits. The reactive power at both generators are partly dispatched.

According to Section 5.1.2, if all the binding constraints are used in formulating (5.12), only the components associated with marginal generators are explicitly shown as given in table 5.3, where λ and σ denote the LMPs of active and reactive power

respectively. The effect of the binding voltage at bus 1 is embedded in the cost components of marginal generators. These results were validated using a sensitivity analysis, by perturbing the active and reactive load at each bus and measuring the changes in generations.

Table 5.3: Components of LMP for Case 1

	LMP	P_{11}	Q_{g1}	Q_{g2}
λ_1	3.600	3.600	0.000	0.000
λ_2	3.464	3.478	0.010	-0.024
λ_3	3.684	3.666	0.002	0.015
σ_1	0.100	0.000	0.100	0.000
σ_2	0.200	0.000	0.000	0.200
σ_3	0.229	0.081	0.083	0.065

In order to understand the meaning of quantities shown in Table 5.3, consider the LMP of bus 3. The LMP indicates that the cost of getting an increment unit of real power at bus 3 is 3.684. This cost is made up of the cost of increasing the real power generation at bus 1 (3.666), the cost of increasing reactive power generation at bus 1 (0.002), and the cost of increasing reactive power generation at bus 2 (0.015). Since the generator bid prices are known, the changes in generation can also be determined as: an increase of 1.018 MW ($=3.666/3.6$) real power generation at bus 1, an increase of 0.02 MVar ($=0.002/0.1$) reactive power generation at bus 1, and an increase of 0.075 MVar ($=0.015/0.2$) reactive power generation at bus 2.

Table 5.3 also reveals that λ_1 has only one component, which is due to P_{11} . This is as expected, because an additional unit of real power at bus 1 is supplied by the marginal bid which is also at bus 1. The same is true for σ_1 and σ_2 , due to the fact that reactive power generation is marginal at those two buses. On the other hand, λ_2 , λ_3 , and σ_3 have contributions from real and reactive power marginal generators due to losses in the network. Note that cost of reactive power is modeled as a fixed cost in this study. If the reactive power is assumed to be free, reactive power components will not appear in LMPs.

Effects of the binding voltage constraint on LMPs can be explicitly obtained by

removing the corresponding constraint from (5.12) as explained in Section 5.1.2. This is shown in table 5.4.

Table 5.4: Components of LMP for Case 1

	LMP	P_{11}	Q_{g1}	Q_{g2}	V_1
λ_1	3.600	3.600	0.000	0.000	0.000
λ_2	3.464	3.535	-0.016	0.037	-0.092
λ_3	3.684	3.623	0.022	-0.035	0.073
σ_1	0.100	0.000	0.100	0.000	0.000
σ_2	0.200	0.000	0.000	0.200	0.000
σ_3	0.229	0.019	0.110	0.000	0.100

Table 5.4 reveals that the contributions from binding voltage constraint at bus 1 on λ_1 , σ_1 , and σ_2 are zero. This is as expected, because the binding constraint has no effect if the generator is delivering to a load connected to the same bus.

Case 2

The difference between this case and Case 1 is that a 300 MW line limit is imposed on all lines. This resulted in PF_{23} reaching the 300 MW limit. The dispatch and μ shown in table 5.2 indicate that bid 2 at bus 1 (i.e, P_{12}) and bid 1 at bus 2 (i.e, P_{21}) are partly dispatched (i.e., marginal bids). The reactive power at both generators are also partly dispatched. The binding constraints are the PF_{23} limit and the voltage limit at bus 1. As before, if all the binding constraints are used in formulating (5.12), only the components associated with marginal generators are explicitly shown as given in table 5.5.

Table 5.5: Components of LMP for Case 2

	LMP	P_{21}	P_{12}	Q_{g1}	Q_{g2}
λ_1	5.200	5.200	0.000	0.000	0.000
λ_2	3.200	0.000	3.200	0.000	0.000
λ_3	6.450	8.335	-1.876	0.047	-0.056
σ_1	0.100	0.000	0.000	0.100	0.000
σ_2	0.200	0.000	0.000	0.000	0.200
σ_3	0.535	0.861	-0.460	0.100	0.034

The value of λ_3 is greater than the highest bid dispatched, (i.e., 5.2). This is due to the binding line flow PF_{23} , which necessitates a reduction in the cheaper bid P_{21} , in order to increase the generation from the expensive bid P_{12} in catering the additional unit of real power at bus 3. The negative contribution of P_{12} in λ_3 (i.e., -1.876) shown in table 5.5 also reveals this. Same explanation can be given for the remaining terms as well.

Effects of the binding constraints (i.e., PF_{23} and V_1) can be explicitly determined by removing these constraint from (5.12). The resulting components are shown in table 5.6.

Table 5.6: Components of LMP for Case 2

	LMP	P_{12}	P_{21}	Q_{g1}	Q_{g2}	V_1	PF_{23}
λ_1	5.200	5.200	0.000	0.000	0.000	0.000	0.000
λ_2	3.200	0.000	3.200	0.000	0.000	0.000	0.000
λ_3	6.450	2.802	1.512	0.021	-0.036	0.156	1.995
σ_1	0.100	0.000	0.000	0.100	0.000	0.000	0.000
σ_2	0.200	0.000	0.000	0.000	0.200	0.000	0.000
σ_3	0.535	0.043	-0.001	0.096	0.025	0.117	0.256

It can be seen from both cases, that the effects of losses are implicit to the explicitly considered components. Therefore, the effects of losses cannot be seen explicitly as a separate component.

5.2 Network Rental

When LMPs are used in settling the transactions, there exists a difference between what consumers pay to the ISO and what generators get paid by the ISO [17]. This difference, which is accumulated with the ISO, is referred to as Network Rental.

Network rental is made up of two components known as the loss rental and the constraint rental. Loss rental is due to the difference between average losses and marginal losses. The marginal cost of real power losses can be twice as high as the average cost of real power losses [56], [57]. This is illustrated in Fig. 5.2. For a given power flow PF_{ij} , the average loss is equal to the gradient of line joining the origin and

the corresponding point, which is equal to $\tan \theta$, whereas the marginal loss is equal to the gradient of the tangent line passing through the corresponding point, which is equal to $\tan \alpha$.

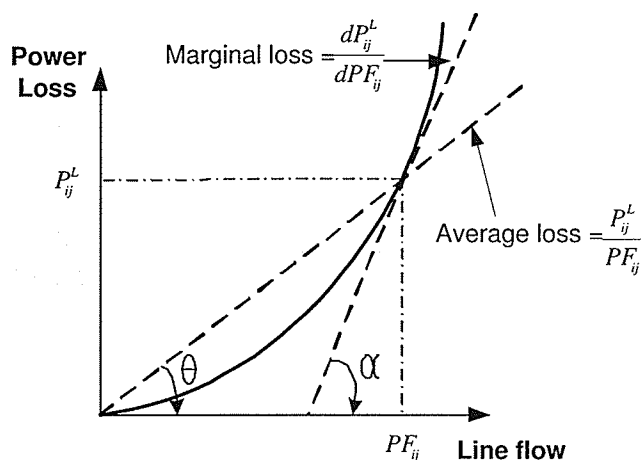


Figure 5.2: Average loss and marginal loss

The other component of the network rental is the constraint rental which is due to operating the power system at the binding constraints imposed by the OPF. The remaining constraints neither influence the outcome of the OPF nor accumulate any constraint rental.

With the present practice of market dispatch based on solving an LP-OPF, the line flows are the only constraints (other than the real power balance equations) considered in the dispatch. Therefore, the constraint rental is only due to the binding line flows. Some markets do not consider transmission losses in market dispatch, and therefore, in those markets no loss rental is accumulated. In some markets, losses are incorporated into the LP-OPF with piece-wise linear approximation for losses [11], while some other markets use loss factors to represent the effects of system losses [12]. However, irrespective of the method of loss modeling, a loss rental will be accumulated with the ISO.

On the other hand, with the NLP-OPF, the inclusion of additional constraints such as voltage limits and DSCs lead to further accumulation of rental with the

ISO in the form of constraint rental. Furthermore, due to reactive power dispatch, additional rental will also be accumulated. This is true even when the reactive power is free from the reactive power sources, because reactive power LMPs at load buses are non-zero due to real power losses associated with transmitting reactive power.

5.2.1 Components of Network Rental

As the network rental is an overpayment made by consumers due to the transmission losses and the binding constraints imposed by the OPF, these rental components do provide the detailed description of each consumer's overpayment. However, to get the advantage of this method, the components of network rental must be correctly determined.

From the available methods, the components of network rental due to the dispatch based on the LP-OPF can be easily determined. The constraint rental is only due to the binding line flow constraints, which makes it easier to decompose the network rental. If the losses are modeled approximately as discussed in Section 5.1.1, the resulting loss rental component can also be determined. However, later in this chapter, it is shown that these individual components only show the total rental accumulated with the ISO due to losses or a given binding constraint.

On the other hand, if the dispatch is based on the NLP-OPF, reactive power dispatch and various other binding constraints also contribute to the network rental. Therefore, new approach will be required in determining each consumer's portion of network rental due to each binding constraint and losses.

5.3 Calculating the Components of Network Rental Based on LP-OPF

In determining the network rental components, the LP-OPF is first considered by formulating the corresponding OPF and analyzing the price relationships based on

the KKT optimality conditions. To make the analysis clear, cases with and without transmission losses modeled are discussed separately.

5.3.1 Neglecting Transmission Losses

When transmission losses are neglected, the power flows can be approximately written either based on dc power flow equations or based on shift factors.

a) using dc power flow equations

The nonlinear power flow equations given in (5.17) can be simplified using dc power flow approximations, which state that line resistance is very small compared to line reactance; voltage across the network is around 1.0 pu; and voltage angle differences are small. This leads to the dc power flow equations as given in (5.18).

$$PF_{ij} = g_{ij}(V_i^2 - V_i V_j \cos \theta_{ij}) - b_{ij} V_i V_j \sin \theta_{ij} \quad \forall (i, j) \subset T \quad (5.17)$$

$$PF_{ij} \simeq -b_{ij} \theta_{ij} \quad \forall (i, j) \subset T \quad (5.18)$$

Using the above dc power flow equations, the LP-OPF is formulated as given in (5.19).

Minimize:

$$J = \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B$$

Subject to:

$$\sum_{k \in B_i} P_{ik} - P_{Di} - \sum_{ij \in T_i} PF_{ij} = 0 \quad \forall i \quad (5.19)$$

$$0 \leq P_{ik} \leq P_{ik}^B \quad \forall i, \forall k$$

$$-PF_{ij}^{max} \leq PF_{ij} \leq PF_{ij}^{max} \quad \forall (i, j) \subset T$$

$$PF_{ij} = -b_{ij}(\theta_i - \theta_j) \quad \forall (i, j) \subset T$$

The Lagrangian for the above problem can be written as:

$$\begin{aligned}
 L = & \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \lambda_i \left[\sum_{k \in B_i} P_{ik} - P_{Di} \right] - \sum_{ij \in T_i} PF_{ij} \\
 & + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^+ (P_{ik} - P_{ik}^B) + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^- (-P_{ik}) \\
 & + \sum_{ij \in T} \mu_{ij}^+ (PF_{ij} - PF_{ij}^{max}) + \sum_{ij \in T} \mu_{ij}^- (-PF_{ij}^{max} - PF_{ij}) \\
 & + \sum_{ij \in T} \gamma_{ij} [PF_{ij} + b_{ij}(\theta_i - \theta_j)]
 \end{aligned} \tag{5.20}$$

The price relationships can be obtained by considering the following KKT conditions of (5.20).

$$\frac{\partial L}{\partial P_{ik}} = S_{ik}^B - \lambda_i + \beta_{ik} = 0 \quad \forall i, \forall k \tag{5.21}$$

$$\frac{\partial L}{\partial PF_{ij}} = \lambda_i + \mu_{ij} - \gamma_{ij} = 0 \quad \forall (i, j) \subset T \tag{5.22}$$

$$\frac{\partial L}{\partial \theta_i} = \sum_{ij \in T_i} b_{ij} \gamma_{ij} - \sum_{ij \in T_i} b_{ji} \gamma_{ji} = 0 \quad \forall i \tag{5.23}$$

Thus, the Network Rental (NR) can be calculated as,

$$\begin{aligned}
 NR = & - \sum_{i \in I} \lambda_i [P_{Di} - \sum_{k \in B_i} P_{ik}] = - \sum_{i \in I} [\lambda_i \sum_{ij \in T_i} PF_{ij}] \\
 = & \sum_{i \in I} \sum_{ij \in T_i} [\mu_{ij} - \gamma_{ij}] PF_{ij} = \sum_{ij \in T} \mu_{ij} PF_{ij} - \sum_{i \in I} \sum_{ij \in T_i} \gamma_{ij} PF_{ij} \\
 = & \sum_{ij \in T} \mu_{ij} PF_{ij} + \sum_{i \in I} \sum_{ij \in T_i} \gamma_{ij} b_{ij} (\theta_i - \theta_j) \\
 = & \sum_{ij \in T} \mu_{ij} PF_{ij} + \sum_{i \in I} \theta_i \sum_{ij \in T_i} \gamma_{ij} b_{ij} - \sum_{i \in I} \sum_{ij \in T_i} \gamma_{ij} b_{ij} \theta_j \\
 = & \sum_{ij \in T} \mu_{ij} PF_{ij} + \sum_{i \in I} \theta_i \left\{ \sum_{ij \in T_i} [\gamma_{ij} b_{ij} - \gamma_{ji} b_{ji}] \right\} \\
 = & \sum_{ij \in T} \mu_{ij} PF_{ij} + \sum_{i \in I} \theta_i [0] \\
 = & \sum_{ij \in T} \mu_{ij} PF_{ij}
 \end{aligned} \tag{5.24}$$

This reveals that the rental is due to all the binding line flow constraints. Since the transmission losses are not considered, no loss rental is accumulated. Further, for each binding line flow constraint, the rental component is equal to the Lagrange multiplier associated with that constraint (i.e., shadow cost), times the limit of the line flow (i.e., $\mu_{ij} \cdot PF_{ij}^{max/min}$). This asserts that the higher the shadow cost of a given binding constraint, the greater will be the network rental collected due to that constraint.

b) using shift factors

Instead of using dc power flow equations, the line flows can also be approximately written using shift factors [10] as shown in (5.25). To eliminate the confusion in notation, *subscript t* is used to denote the transmission line, instead of *ij*. Thus, SF_{it} shows how the line flow of line *t* is changed, if the injection at bus *i* is pertubated.

$$PF_t = \sum_{i \in I} SF_{it} \left[\sum_{k \in B_i} P_{ik} - P_{Di} \right] \quad \forall t \subset T \quad (5.25)$$

Thereby, the LP-OPF can be reformulated in the following way.

Minimize:

$$J = \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B$$

Subject to:

$$\sum_{i \in I} \left[\sum_{k \in B_i} P_{ik} - P_{Di} \right] = 0 \quad (5.26)$$

$$0 \leq P_{ik} \leq P_{ik}^B \quad \forall i, \forall k$$

$$-PF_t^{max} \leq PF_t \leq PF_t^{max} \quad \forall t \subset T$$

$$PF_t = \sum_{i \in I} SF_{it} \left[\sum_{k \in B_i} P_{ik} - P_{Di} \right] \quad \forall t \subset T$$

The Lagrangian for the above problem becomes:

$$\begin{aligned}
 L = & \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \lambda \left[\sum_{i \in I} [\sum_{k \in B_i} P_{ik} - P_{Di}] \right] \\
 & + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^+ (P_{ik} - P_{ik}^B) + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^- (-P_{ik}) \\
 & + \sum_{t \in T} \mu_t^+ (PF_t - PF_t^{max}) + \sum_{t \in T} \mu_t^- (-PF_t^{max} - PF_t) \\
 & + \sum_{t \in T} \gamma_t \left[PF_t - \sum_{i \in I} SF_{it} [\sum_{k \in B_i} P_{ik} - P_{Di}] \right]
 \end{aligned} \tag{5.27}$$

The price relationships can be obtained by considering the following KKT conditions of (5.27).

$$\frac{\partial L}{\partial P_{ik}} = S_{ik}^B - \lambda + \beta_{ik} - \sum_{t \in T} \gamma_t SF_{it} = 0 \quad \forall i, \forall k \tag{5.28}$$

$$\frac{\partial L}{\partial PF_t} = \mu_t + \gamma_t = 0 \quad \forall t \subset T \tag{5.29}$$

The Lagrange multiplier β_{ik} is the shadow cost of the supply bid P_{ik}^B . Therefore, $S_{ik}^B + \beta_{ik}$ indicates the price at bus i for all k , and hence, the LMP at bus i , λ_i becomes,

$$S_{ik}^B + \beta_{ik} = \lambda_i = \lambda - \sum_{t \in T} \mu_t SF_{it} \tag{5.30}$$

Thus, the Network Rental (NR) can be calculated as,

$$\begin{aligned}
 NR &= - \sum_{i \in I} \lambda_i [P_{Di} - \sum_{k \in B_i} P_{ik}] = - \sum_{i \in I} [\lambda - \sum_{t \in T} \mu_t SF_{it}] [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 &= -\lambda \sum_{i \in I} [P_{Di} - \sum_{k \in B_i} P_{ik}] + \sum_{i \in I} \sum_{t \in T} \mu_t SF_{it} [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 &= 0 + \sum_{t \in T} \sum_{i \in I} \mu_t SF_{it} [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 &= \sum_{t \in T} \mu_t PF_t
 \end{aligned} \tag{5.31}$$

Once again, (5.31) reveals that the calculated network rental is entirely due to binding line flow constraints. However, since the two OPF formulations given in (5.19) and (5.26) are different, the calculated rental will be numerically different for the two cases. Furthermore, the calculated rental in this case is reference bus dependent, which is a serious drawback of this method [10].

5.3.2 Including Transmission Losses

Due to the vast geographical span of the power system, transmission losses can cause significant impact on optimal generation dispatch depending on the topology of the power system network. Therefore, in some electricity markets losses are incorporated into the LP-OPF by piece-wise linear approximation for losses [11]. Some other markets use loss factors to represent the effects of the system losses [12]. Therefore, in these markets, rental due to losses is also accumulated in addition to rental due to binding line flow constraints, as shown below.

a) using dc power flow equations and piece-wise linear loss equation

The transmission loss in line ij , PF_{ij}^L can be calculated as,

$$\begin{aligned} PF_{ij}^L &= PF_{ij} + PF_{ji} \\ PF_{ij}^L &= g_{ij}(2V_i^2 + 2V_j^2 - 2V_iV_j \cos \theta_{ij}) \end{aligned} \quad (5.32)$$

For small angle differences and voltages close to 1.0 pu, (5.32) can be simplified as,

$$\begin{aligned} PF_{ij}^L &\simeq 2g_{ij}(1 - \cos \theta_{ij}) \\ &\simeq g_{ij}\theta_{ij}^2 \end{aligned} \quad (5.33)$$

This indicates that in the most simple form, the transmission losses are quadratic in nature and hence, the nonlinear loss term PF_{ij}^L can not be linearized for the whole range of line flow.

Thus, the losses can be incorporated in the line flow PF_{ij} as,

$$\begin{aligned}
 PF_{ij} &= g_{ij}(V_i^2 - V_i V_j \cos \theta_{ij}) - b_{ij} V_i V_j \sin \theta_{ij} \\
 &= g_{ij}(1 - \cos \theta_{ij}) - b_{ij} \sin \theta_{ij} \\
 &= -b_{ij}(\theta_i - \theta_j) + \frac{1}{2} PF_{ij}^L
 \end{aligned}
 \tag{5.34}$$

As pointed out earlier, (5.34) is no longer a linear equation, and cannot be used in the LP-OPF. However, piecewise linear approximation of PF_{ij}^L as shown in figure 5.3 can be used to make it suitable for a LP-OPF. In this way, the nonlinear loss function is approximated by a set of linear segments. Different mathematical techniques can be used to obtain these line segments from the nonlinear loss curve [13].

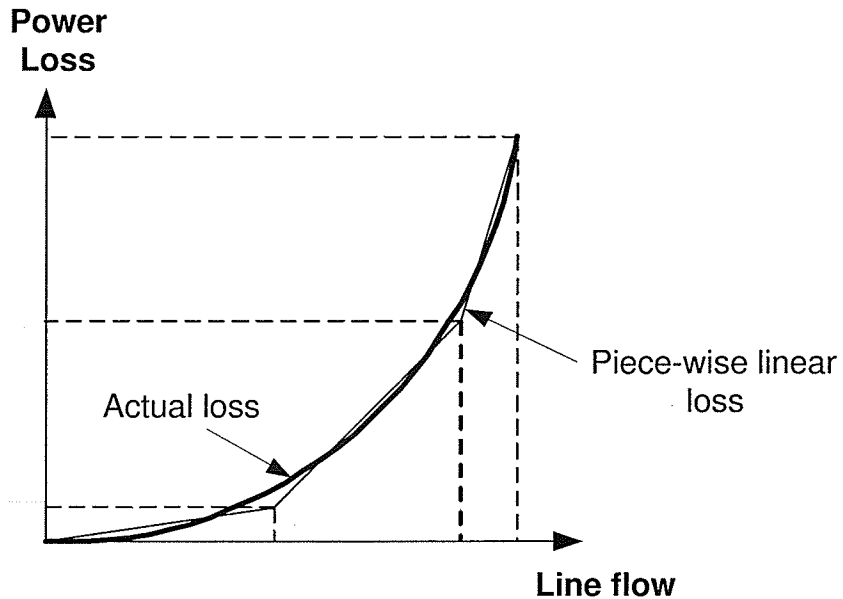


Figure 5.3: Piece-wise linear approximation for losses

Thereby, the OPF can be formulated as:

Minimize:

$$J = \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B$$

Subject to:

$$\begin{aligned} \sum_{k \in B_i} P_{ik} - P_{Di} - \sum_{ij \in K_i} PF_{ij} &= 0 & \forall i & \quad (5.35) \\ 0 \leq P_{ik} \leq P_{ik}^B & & \forall i, \forall k & \\ -PF_{ij}^{max} \leq P_{ij} \leq PF_{ij}^{max} & & \forall (i, j) \subset T & \\ PF_{ij} = -b_{ij}(\theta_i - \theta_j) + \frac{1}{2}PF_{ij}^L & & \forall (i, j) \subset T & \end{aligned}$$

The Lagrangian for the above problem can be written as:

$$\begin{aligned} L = & \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \lambda_i \left[\sum_{k \in B_i} P_{ik} - P_{Di} - \sum_{ij \in T_i} PF_{ij} \right] \\ & + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^+ (P_{ik} - P_{ik}^B) + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^- (-P_{ik}) \\ & + \sum_{ij \in T} \mu_{ij}^+ (PF_{ij} - PF_{ij}^{max}) + \sum_{ij \in T} \mu_{ij}^- (-PF_{ij}^{max} - PF_{ij}) \\ & + \sum_{ij \in T} \gamma_{ij} [PF_{ij} + b_{ij}(\theta_i - \theta_j) - \frac{1}{2}PF_{ij}^L] \end{aligned} \quad (5.36)$$

The price relationships can be obtained by considering the following KKT conditions of (5.36).

$$\frac{\partial L}{\partial P_{ik}} = S_{ik}^B - \lambda_i + \beta_{ik} = 0 \quad \forall i, \forall k \quad (5.37)$$

$$\frac{\partial L}{\partial PF_{ij}} = \lambda_i + \mu_{ij} - \gamma_{ij} = 0 \quad \forall (i, j) \subset T \quad (5.38)$$

$$\frac{\partial L}{\partial \theta_i} = \sum_{ij \in T_i} \gamma_{ij} [b_{ij} - \frac{1}{2} \frac{\partial PF_{ij}^L}{\partial \theta_i}] - \sum_{ij \in T_i} \gamma_{ji} [b_{ji} - \frac{1}{2} \frac{\partial PF_{ji}^L}{\partial \theta_i}] = 0 \quad \forall i \quad (5.39)$$

Equation (5.39) can be further simplified as,

$$\begin{aligned}
 & \sum_{ij \in T_i} \gamma_{ij} [b_{ij} - \frac{1}{2} \frac{\partial P F_{ij}^L}{\partial \theta_i}] - \sum_{ij \in T_i} \gamma_{ji} [b_{ji} - \frac{1}{2} \frac{\partial P F_{ji}^L}{\partial \theta_i}] = 0 \\
 & \sum_{ij \in T_i} [\gamma_{ij} b_{ij} - \gamma_{ji} b_{ji}] = \frac{1}{2} \sum_{ij \in T_i} [\gamma_{ij} \frac{\partial P F_{ij}^L}{\partial \theta_i} - \gamma_{ji} \frac{\partial P F_{ji}^L}{\partial \theta_i}]
 \end{aligned} \tag{5.40}$$

Thus, the Network Rental (NR) can be calculated as,

$$\begin{aligned}
 NR &= - \sum_{i \in I} \lambda_i [P_{Di} - \sum_{k \in B_i} P_{ik}] = - \sum_{i \in I} [\lambda_i \sum_{ij \in T_i} P F_{ij}] \\
 &= \sum_{i \in I} \sum_{ij \in T_i} [\mu_{ij} - \gamma_{ij}] P F_{ij} = \sum_{ij \in T} \mu_{ij} P F_{ij} - \sum_{i \in I} \sum_{ij \in T_i} \gamma_{ij} P F_{ij} \\
 &= \sum_{ij \in T} \mu_{ij} P F_{ij} - \sum_{i \in I} \sum_{ij \in T_i} \gamma_{ij} [-b_{ij}(\theta_i - \theta_j) + \frac{1}{2} P F_{ij}^L] \\
 &= \sum_{ij \in T} \mu_{ij} P F_{ij} + A
 \end{aligned} \tag{5.41}$$

Equation (5.41) indicates that there are two components of network rental. Close examination reveals that the first term shows the constraint rental due to all binding line flow constraints and the second term denoted by A shows the accumulated loss rental. This can be further clarified by simplifying the expression of A in (5.41) using the relationship obtained in (5.40). This simplified expression of A also conforms that loss rental is proportional to the difference between marginal loss and average loss.

$$\begin{aligned}
 A &= - \sum_{i \in I} \sum_{ij \in T_i} \gamma_{ij} [-b_{ij}(\theta_i - \theta_j) + \frac{1}{2} P F_{ij}^L] \\
 &= \sum_{i \in I} \left[\sum_{ij \in T_i} \gamma_{ij} b_{ij} \theta_i - \sum_{ij \in T_i} \gamma_{ij} b_{ij} \theta_j \right] - \frac{1}{2} \sum_{ij \in T} [\gamma_{ij} P F_{ij}^L + \gamma_{ji} P F_{ji}^L] \\
 &= \sum_{i \in I} \theta_i \left[\sum_{ij \in T_i} \gamma_{ij} b_{ij} - \sum_{ij \in T_i} \gamma_{ji} b_{ji} \right] - \frac{1}{2} \sum_{ij \in T} [\gamma_{ij} P F_{ij}^L + \gamma_{ji} P F_{ji}^L] \\
 &= \sum_{i \in I} \theta_i \left[\frac{1}{2} \sum_{ij \in T_i} [\gamma_{ij} \frac{\partial P F_{ij}^L}{\partial \theta_i} - \gamma_{ji} \frac{\partial P F_{ji}^L}{\partial \theta_i}] \right] - \frac{1}{2} \sum_{ij \in T} [\gamma_{ij} P F_{ij}^L + \gamma_{ji} P F_{ji}^L]
 \end{aligned}$$

b) using shift factors and loss factors

Instead of using the piecewise linear loss approximation as explained above, the losses can alternatively be incorporated using loss factors as shown below.

$$\sum_{i \in I} [\sum_{k \in B_i} P_{ik} - P_{Di}] - P^L = 0$$

$$P^L - \sum_{i \in I} LF_i [\sum_{k \in B_i} P_{ik} - P_{Di}] + offset = 0$$

A base case power flow is used to determine the actual power loss, P^L . Then, based on the loss factors, the linearized offset of loss is determined (this step is required to offset the difference between the actual loss and the linearized loss based on loss factors).

Thereby, the OPF can be formulated as:

Minimize:

$$J = \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B$$

Subject to:

$$\sum_{i \in I} [\sum_{k \in B_i} P_{ik} - P_{Di}] - P^L = 0 \tag{5.42}$$

$$P^L - \sum_{i \in I} LF_i [\sum_{k \in B_i} P_{ik} - P_{Di}] + offset = 0$$

$$0 \leq P_{ik} \leq P_{ik}^B \quad \forall i, \forall k$$

$$-PF_t^{max} \leq PF_t \leq PF_t^{max} \quad \forall t \subset T$$

$$PF_t = \sum_{i \in I} SF_{it} [\sum_{k \in B_i} P_{ik} - P_{Di}] \quad \forall t \subset T$$

The Lagrangian for the above problem can be written as:

$$\begin{aligned}
 L = & \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \lambda \left[\sum_{i \in I} [\sum_{k \in B_i} P_{ik} - P_{Di}] - P^L \right] \\
 & + \psi \left[P^L + \sum_{i \in I} LF_i [\sum_{k \in B_i} P_{ik} + P_{Di}] + offset \right] \\
 & + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^+ (P_{ik} - P_{ik}^B) + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^- (-P_{ik}) \\
 & + \sum_{t \in T} \mu_t^+ (PF_t - PF_t^{max}) + \sum_{t \in T} \mu_t^- (-PF_t^{max} - PF_t) \\
 & + \sum_{t \in T} \gamma_t \left[PF_t - \sum_{i \in I} SF_{it} [\sum_{k \in B_i} P_{ik} - P_{Di}] \right]
 \end{aligned} \tag{5.43}$$

The price relationships can be obtained by considering the following KKT conditions of (5.43).

$$\frac{\partial L}{\partial P_{ik}} = S_{ik}^B - \lambda - \psi LF_i + \beta_{ik}^+ - \beta_{ik}^- - \sum_{t \in T} \gamma_t SF_{it} = 0 \quad \forall i, \forall k \tag{5.44}$$

$$\frac{\partial L}{\partial PF_t} = \mu_t^+ - \mu_t^- + \gamma_t = 0 \quad \forall t \subset T \tag{5.45}$$

$$\frac{\partial L}{\partial P^L} = \lambda - \psi = 0 \tag{5.46}$$

Therefore,

$$S_{ik}^B + \beta_{ik} = \lambda - \lambda LF_i - \sum_{t \in T_i} \mu_t SF_{it} = \lambda_i \tag{5.47}$$

Thus, the Network Rental (NR) can be calculated as,

$$\begin{aligned}
 NR = & - \sum_{i \in I} \lambda_i [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 = & - \sum_{i \in I} [\lambda - \lambda LF_i - \sum_{t \in T_i} \mu_t SF_{it}] [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 = & -\lambda \sum_{i \in I} [P_{Di} - \sum_{k \in B_i} P_{ik}] + \lambda \sum_{i \in I} LF_i [P_{Di} - \sum_{k \in B_i} P_{ik}] + \sum_{i \in I} \sum_{t \in T_i} \mu_t SF_{it} [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 = & -\lambda P^L + \lambda P^{L.mag} + \sum_{t \in T_i} \sum_{i \in I} \mu_t SF_{it} [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 = & \lambda [P^{L.mag} - P^L] + \sum_{t \in T_i} \mu_t PF_t
 \end{aligned} \tag{5.48}$$

Once again, the first term in (5.48) shows the accumulated loss rental and the second term shows the accumulated constraint rental due to binding line flows. The important point is that the calculated rental is reference bus dependent. This is because, as discussed in Section 5.1.1, the losses are balanced at a designated slack bus. Thus, once the slack bus is changed, the calculated rental components appearing in (5.48) are also changed. This can be eliminated by introducing the loss distribution factors as explained in the next formulation.

c) using shift factors, loss factors and loss distribution factors

If the losses are balanced at the bus level using loss distribution factors [10] (which indicate the fraction of losses to be balanced at each bus), the calculated rental components appearing in (5.48) can be made reference bus independent, as shown below.

$$PF_t = \sum_{i \in I} SF_{it} \left[\sum_{k \in B_i} P_{ik} - P_{Di} - LDF_i P^L \right] \quad \forall t \subset T$$

where, LDF_i is the loss distribution factor at bus i , which shows the assigned portion of losses to bus i . Further, $\sum_i LDF_i = 1$. Thus, the OPF can be formulated as:

Minimize:

$$J = \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B$$

Subject to:

$$\sum_{i \in I} \left[\sum_{k \in B_i} P_{ik} - P_{Di} \right] - P^L = 0 \tag{5.49}$$

$$P^L - \sum_{i \in I} LDF_i \left[\sum_{k \in B_i} P_{ik} - P_{Di} \right] + offset = 0$$

$$0 \leq P_{ik} \leq P_{ik}^B \quad \forall i, \forall k$$

$$-PF_t^{max} \leq PF_t \leq PF_t^{max} \quad \forall t \subset T$$

$$PF_t = \sum_{i \in I} SF_{it} \left[\sum_{k \in B_i} P_{ik} - P_{Di} - LDF_i P^L \right] \quad \forall t \subset T$$

The Lagrangian for the above problem can be written as:

$$\begin{aligned}
 L = & \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B \\
 & + \lambda \left[\sum_{i \in I} \left[\sum_{k \in B_i} P_{ik} - P_{Di} \right] - P^L \right] \\
 & + \psi \left[P^L + \sum_{i \in I} L F_i \left[\sum_{k \in B_i} P_{ik} + P_{Di} \right] + \text{offset} \right] \\
 & + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^+ (P_{ik} - P_{ik}^B) + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^- (-P_{ik}) \\
 & + \sum_{t \in T} \mu_t^+ (P F_t - P F_t^{\max}) + \sum_{t \in T} \mu_t^- (-P F_t^{\max} - P F_t) \\
 & + \sum_{t \in T} \gamma_t \left[P F_t - \sum_{i \in I} S F_{it} \left[\sum_{k \in B_i} P_{ik} - P_{Di} - L D F_i P^L \right] \right]
 \end{aligned} \tag{5.50}$$

The price relationships can be obtained by considering the following KKT conditions of (5.50).

$$\frac{\partial L}{\partial P_{ik}} = S_{ik}^B - \lambda - \psi L F_i + \beta_{ik}^+ - \beta_{ik}^- - \sum_{t \in T} \gamma_t S F_{it} = 0 \quad \forall i, \forall k \tag{5.51}$$

$$\frac{\partial L}{\partial P F_t} = \mu_t^+ - \mu_t^- + \gamma_t = 0 \quad \forall t \subset T \tag{5.52}$$

$$\frac{\partial L}{\partial P^L} = \lambda - \psi - \sum_{t \in T} \gamma_t \sum_{i \in I} S F_{it} L D F_i = 0 \tag{5.53}$$

Therefore,

$$S_{ik}^B + \beta_{ik} = \lambda - \psi L F_i - \sum_{t \in T} \mu_t S F_{it} = \lambda_i \tag{5.54}$$

The above expression for λ_i can be simplified as,

$$\lambda_i = \psi - \psi L F_i - \sum_{t \in T} \mu_t S F_{it} + \sum_{t \in T} \mu_t S F_{it} L D F_i \tag{5.55}$$

$$\lambda_i = \psi - \psi L F_i - [1 - L D F_i] \sum_{t \in T} \mu_t S F_{it} \tag{5.56}$$

Thus, the Network Rental (NR) can be calculated as,

$$\begin{aligned}
 NR &= - \sum_{i \in I} \lambda_i [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 &= - \sum_{i \in I} \left[\psi - \psi L F_i - [1 - L D F_i] \sum_{t \in T} \mu_t S F_{it} \right] [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 &= -\psi \sum_{i \in I} [P_{Di} - \sum_{k \in B_i} P_{ik}] + \psi \sum_{i \in I} L F_i [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 &\quad + \sum_{i \in I} \sum_{t \in T} [1 - L D F_i] \mu_t S F_{it} [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 &= -\psi P^L + \psi P^{L.mag} + \sum_{t \in T} \sum_{i \in I} [1 - L D F_i] \mu_t S F_{it} [P_{Di} - \sum_{k \in B_i} P_{ik}] \\
 &= \psi [P^{L.mag} - P^L] + \sum_{t \in T} \mu_t P F_t \tag{5.57}
 \end{aligned}$$

Expression (5.57) is very much similar to (5.48), except it can be shown that the calculated rental components appearing in (5.57) are reference bus independent [10]. The problem, however, is that the whole process depends on these predefined loss distribution factors, which do not represent how the actual losses are consumed.

5.3.3 Discussion

Based on the above LP based formulations, it can be seen that the calculated components of network rental do not show each consumer's contribution due to each binding constraint explicitly. In other words, these components only show the total rental paid by all the consumers due to losses and each binding constraint. Since the LP-OPF is considered, the rental components due to reactive power dispatch and other system constraints cannot be determined.

As pointed out earlier, to be considered as better market signals, the portion of network rental to each consumer due to each binding constraint and losses must be correctly determined. Thus, a new method is required to determine these network rental components, especially when the general NLP-OPF is considered in representing the actual operation of the system. The next section presents the proposed method of determining the rental components paid by each consumer due to losses

and each binding constraint, by considering the general NLP-OPF.

5.4 Proposed Method of Calculating the Components of Network Rental

The proposed method of computing the components of network rental is developed in two stages. In the first stage, necessary equations for LMP difference between two buses is developed for a network with only one load. This LMP difference is expressed in terms of the contributing components, which include the effects of losses and binding constraints as separate terms, and can be written for any two buses. Then, these LMP differences are used to determine the components of the network rental paid by the single consumer by expressing the network rental in terms of LMP differences between generator buses and the load bus. In the second stage, the single load bus approach is extended to a general case of multiple load buses by tracing the power flow to identify how each load and the associated losses are supplied by the generators in the system.

5.4.1 Determining the LMP Difference Between Two Buses in Terms of Contributing Components

In this section, the first stage of the proposed method is explained, in which the KKT optimality conditions obtained from the NLP-OPF are used to determine the LMP difference between two buses in terms of contributing components.

As before, the OPF is first formulated and the KKT optimality conditions are analyzed to determine the LMP relationships. This NLP-OPF formulation is given in (5.58)³.

³Note that in order to clearly explain the proposed method, the reactive power model and the DSC discussed in Chapters 3 and 4 are not considered in this OPF formulation. However, these constraints are considered in the case study presented in Chapter 7.

Minimize:

$$J = \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \sum_{i \in I} Q_{gi} S_i^Q$$

Subject to:

$$\begin{aligned} \sum_{i \in I} [\sum_{k \in B_i} P_{ik} - P_{Di}] - P^L &= 0 \\ \sum_{i \in I} [Q_{gi} - Q_{Di}] - Q^L &= 0 \\ 0 \leq P_{ik} \leq P_{ik}^B &\quad \forall i, \forall k \\ Q_{gi}^{min} \leq Q_{gi} \leq Q_{gi}^{max} &\quad \forall i \\ -PF_{ij}^{max} \leq PF_{ij} \leq PF_{ij}^{max} &\quad \forall (i, j) \subset T \\ V_i^{min} \leq V_i \leq V_i^{max} &\quad \forall i \end{aligned} \tag{5.58}$$

The Lagrangian for the above problem can be written as:

$$\begin{aligned} L &= \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \sum_{i \in I} Q_{gi} S_i^Q \\ &+ \lambda [\sum_{i \in I} [\sum_{k \in B_i} P_{ik} - P_{Di}] - P^L] + \sigma [\sum_{i \in I} [Q_{gi} - Q_{Di}] - Q^L] \\ &+ \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^+ (P_{ik} - P_{ik}^B) + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^- (-P_{ik}) \\ &+ \sum_{ij \in T} \mu_{ij}^+ (PF_{ij} - PF_{ij}^{max}) + \sum_{ij \in T} \mu_{ij}^- (-PF_{ij}^{max} - PF_{ij}) \\ &+ \sum_{i \in I} \phi_i^+ (V_i - V_i^{max}) + \sum_{i \in I} \phi_i^- (V_i^{min} - V_i) \\ &+ \sum_{i \in I} \eta_i^+ (Q_{gi} - Q_{gi}^{max}) + \sum_{i \in I} \eta_i^- (Q_{gi}^{min} - Q_{gi}) \end{aligned} \tag{5.59}$$

Further,

$$\begin{aligned}\beta_{ik}^+ \beta_{ik}^- &= 0 \implies \beta_{ik} = \beta_{ik}^+ - \beta_{ik}^- \\ \mu_{ij}^+ \mu_{ij}^- &= 0 \implies \mu_{ij} = \mu_{ij}^+ - \mu_{ij}^- \\ \phi_i^+ \phi_i^- &= 0 \implies \phi_i = \phi_i^+ - \phi_i^- \\ \eta_i^+ \eta_i^- &= 0 \implies \eta_i = \eta_i^+ - \eta_i^- \\ \beta_{ik}^+, \beta_{ik}^-, \mu_{ij}^+, \mu_{ij}^-, \phi_i^+, \phi_i^-, \eta_i^+, \eta_i^- &\geq 0\end{aligned}$$

Price relationships can be obtained by considering the following KKT optimality conditions of (5.59).

$$\begin{aligned}\frac{\partial L}{\partial P_{ik}} &= S_{ik}^B - \lambda \left[\frac{\partial P^L}{\partial P_{ik}} - 1 \right] - \sigma \left[\frac{\partial Q^L}{\partial P_{ik}} \right] + \sum_{ij \in T} \mu_{ij} \left(\frac{\partial PF_{ij}}{\partial P_{ik}} \right) \\ &+ \beta_{ik} + \sum_{i \in I} \phi_i \left(\frac{\partial V_i}{\partial P_{ik}} \right) - \eta_i \left[\frac{\partial Q_{gi}^{max/min}}{\partial P_{ik}} \right] = 0 \quad \forall i, \forall k\end{aligned}\quad (5.60)$$

$$\begin{aligned}\frac{\partial L}{\partial Q_{gi}} &= S_i^Q - \lambda \left[\frac{\partial P^L}{\partial Q_{gi}} \right] - \sigma \left[\frac{\partial Q^L}{\partial Q_{gi}} - 1 \right] + \sum_{ij \in T} \mu_{ij} \left(\frac{\partial PF_{ij}}{\partial Q_{gi}} \right) \\ &+ \sum_{i \in I} \phi_i \left(\frac{\partial V_i}{\partial Q_{gi}} \right) + \eta_i = 0 \quad \forall i\end{aligned}\quad (5.61)$$

Note that to avoid complexities in explaining the analysis, the reactive power model proposed in Chapter 3 and the DSC discussed in Chapter 4 are not included in the above OPF formulation. However, these constraints can be easily incorporated as discussed in Chapters 3 and 4, and are considered in the case study presented in Chapter 7. However, only the dependency of the maximum and minimum limits of reactive power on the real power dispatch is considered in obtaining (5.60).

The same optimization problem given in (5.58) can be rewritten in a different form by considering real and reactive power balance equations at each node separately as given in (5.62), where $PF_{ij} = g_{ij}(V_i^2 - V_i V_j \cos \theta_{ij}) - b_{ij} V_i V_j \sin \theta_{ij}$.

In this way, the total active and reactive power loss P^L and Q^L are made implicit in the formulation as shown in (5.62). In this formulation of OPF, each power balance

equation has distinct multipliers (i.e., λ_i and σ_i), which represent the real and reactive power LMPs at the respective bus.

Minimize:

$$J = \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \sum_{i \in I} Q_{gi} S_i^Q$$

Subject to:

$$\begin{aligned} \sum_{k \in B_i} P_{ik} - P_{Di} &= \sum_{ij \in T_i} V_i [g_{ij}(V_i - V_j \cos \theta_{ij}) - b_{ij} V_j \sin \theta_{ij}] & \forall i \\ Q_{gi} - Q_{Di} &= \sum_{ij \in T_i} V_i [-b_{ij}(V_i - V_j \cos \theta_{ij}) - g_{ij} V_j \sin \theta_{ij}] & \forall i \\ 0 &\leq P_{ik} \leq P_{ik}^B & \forall i, \forall k \\ Q_{gi}^{min} &\leq Q_{gi} \leq Q_{gi}^{max} & \forall i \\ -PF_{ij}^{max} &\leq PF_{ij} \leq PF_{ij}^{max} & \forall (i, j) \subset T \\ V_i^{min} &\leq V_i \leq V_i^{max} & \forall i \end{aligned} \quad (5.62)$$

The Lagrangian for the above problem can be written as:

$$\begin{aligned} L &= \sum_{i \in I} \sum_{k \in B_i} P_{ik} S_{ik}^B + \sum_{i \in I} Q_{gi} S_i^Q \\ &+ \sum_{i \in I} \lambda_i \left[- \sum_{k \in B_i} P_{ik} + P_{Di} + \sum_{ij \in T_i} V_i [g_{ij}(V_i - V_j \cos \theta_{ij}) - b_{ij} V_j \sin \theta_{ij}] \right] \\ &+ \sum_{i \in I} \sigma_i \left[-Q_{gi} + Q_{Di} + \sum_{ij \in T_i} V_i [-b_{ij}(V_i - V_j \cos \theta_{ij}) - g_{ij} V_j \sin \theta_{ij}] \right] \\ &+ \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^+ (P_{ik} - P_{ik}^B) + \sum_{i \in I} \sum_{k \in B_i} \beta_{ik}^- (-P_{ik}) \\ &+ \sum_{ij \in T} \mu_{ij}^+ (PF_{ij} - PF_{ij}^{max}) + \sum_{ij \in T} \mu_{ij}^- (-PF_{ij}^{max} - PF_{ij}) \\ &+ \sum_{i \in I} \phi_i^+ (V_i - V_i^{max}) + \sum_{i \in I} \phi_i^- (V_i^{min} - V_i) \\ &+ \sum_{i \in I} \eta_i^+ (Q_{gi} - Q_{gi}^{max}) + \sum_{i \in I} \eta_i^- (Q_{gi}^{min} - Q_{gi}) \end{aligned} \quad (5.63)$$

The price relationships can be obtained by considering the following KKT optimality conditions.

$$\frac{\partial L}{\partial P_{ik}} = S_{ik}^B - \lambda_i + \beta_{ik} - \eta_i \left[\frac{\partial Q_{gi}^{max/min}}{\partial P_{ik}} \right] = 0 \quad \forall i, \forall k \quad (5.64)$$

$$\frac{\partial L}{\partial Q_{gi}} = S_i^Q - \sigma_i + \eta_i = 0 \quad \forall i \quad (5.65)$$

Hence, the real and reactive power LMPs at bus i are,

$$\lambda_i = S_{ik}^B + \beta_{ik} + \eta_i \left[\frac{\partial Q_{gi}^{max/min}}{\partial P_{ik}} \right] \quad \forall i, \forall k \quad (5.66)$$

$$\sigma_i = S_i^Q + \eta_i \quad \forall i \quad (5.67)$$

The term $\frac{\partial P^L}{\partial P_{ik}}$ in (5.60) is the loss sensitivity, which represents the contribution from the supply offer P_{ik} to the total system losses. However, this is only a function of location of the generator as any other offer at the same bus makes the same change in system losses. Therefore, offers from the same bus have the same loss sensitivity, which is the sensitivity of losses to the net injection into that node. Hence, $\frac{\partial P^L}{\partial P_{ik}}$ can be replaced with $\frac{\partial P^L}{\partial P_i}$ by removing suffix k . Similar explanation applies to the remaining terms in (5.60) and (5.61).

Equations (5.60) and (5.66) can be combined to obtain the real power LMP at bus i as,

$$\lambda_i = \lambda \left[1 - \frac{\partial P^L}{\partial P_i} \right] + \sigma \left[-\frac{\partial Q^L}{\partial P_i} \right] - \sum_{ij \in T} \mu_{ij} \left(\frac{\partial PF_{ij}}{\partial P_i} \right) - \sum_{i \in I} \phi_i \left(\frac{\partial V_i}{\partial P_i} \right) \quad \forall i \quad (5.68)$$

Similarly, by combining (5.61) and (5.67), the reactive power LMP at bus i can be obtained as,

$$\sigma_i = \lambda \left[-\frac{\partial P^L}{\partial Q_i} \right] + \sigma \left[1 - \frac{\partial Q^L}{\partial Q_i} \right] - \sum_{ij \in T} \mu_{ij} \left(\frac{\partial PF_{ij}}{\partial Q_i} \right) - \sum_{i \in I} \phi_i \left(\frac{\partial V_i}{\partial Q_i} \right) \quad \forall i \quad (5.69)$$

The first term in (5.68) represents the cost of delivered real power to bus i from the reference bus in the event of delivering a unit of MW of real power to bus i . The second term represents the cost of associated reactive power loss in delivering the real power. The final two terms indicate the costs due to binding line flow and voltage constraints respectively. It is important to note that if a constraint is not binding, the corresponding Lagrangian multiplier (i.e., shadow cost) is zero, resulting in a zero contribution to the LMP. The same explanation can be given for the terms in (5.69) as well.

However, explicit evaluation of each partial derivative appearing in (5.68) and (5.69) for each LMP difference required, leads to a high computational burden as a large number of terms needs to be evaluated. To overcome this difficulty, these derivatives are implicitly calculated by post processing the following KKT optimality conditions of the Lagrangian equation in (5.63) as shown below.

$$\begin{aligned}
 \frac{\partial L}{\partial V_i} = & \lambda_i \sum_{ij \in T_i} [g_{ij}(2V_i - V_j \cos \theta_{ij}) - b_{ij}V_j \sin \theta_{ij}] + \sum_{j \neq i} \lambda_j [-g_{ij}V_j \cos \theta_{ji} - b_{ij}V_j \sin \theta_{ji}] \\
 & + \sigma_i \sum_{ij \in T_i} [-b_{ij}(2V_i - V_j \cos \theta_{ij}) - g_{ij}V_j \sin \theta_{ij}] + \sum_{j \neq i} \sigma_j [b_{ij}V_j \cos \theta_{ji} - g_{ij}V_j \sin \theta_{ji}] \\
 & + \phi_i^+ - \phi_i^- + \sum_{ij \in T} \mu_{ij} \frac{\partial PF_{ij}}{\partial V_i} = 0 \quad \forall i
 \end{aligned} \tag{5.70}$$

$$\begin{aligned}
 \frac{\partial L}{\partial \theta_i} = & \lambda_i \sum_{ij \in T_i} [V_i(g_{ij}V_j \sin \theta_{ij} - b_{ij}V_j \cos \theta_{ij})] + \sum_{j \neq i} \lambda_j [-g_{ij}V_iV_j \sin \theta_{ji} + b_{ij}V_iV_j \cos \theta_{ji}] \\
 & + \sigma_i \sum_{ij \in T_i} [V_i(-b_{ij}V_j \sin \theta_{ij} - g_{ij}V_j \cos \theta_{ij})] + \sum_{j \neq i} \sigma_j [b_{ij}V_iV_j \sin \theta_{ji} + g_{ij}V_iV_j \cos \theta_{ji}] \\
 & + \sum_{ij \in T} \mu_{ij} \frac{\partial PF_{ij}}{\partial \theta_i} = 0 \quad \forall i
 \end{aligned} \tag{5.71}$$

Equations (5.70) and (5.71) represent $2n$ number of equations (where n is the number of buses in the system), and these equations can be written in the compact

matrix form as,

$$\begin{bmatrix} \frac{\partial G}{\partial V} & \frac{\partial \bar{G}}{\partial V} \\ \frac{\partial G}{\partial \theta} & \frac{\partial \bar{G}}{\partial \theta} \end{bmatrix} \begin{bmatrix} \lambda \\ \sigma \end{bmatrix} = \begin{bmatrix} c \\ d \end{bmatrix} \quad (5.72)$$

where G_i and \bar{G}_i represent the expressions for real and reactive power injections at bus i , and, c and d are arrays of order n with i^{th} element given by,

$$c_i = -\phi_i^+ + \phi_i^- - \sum_{ij \in T} \mu_{ij} \frac{\partial PF_{ij}}{\partial V_i}$$

$$d_i = - \sum_{ij \in T} \mu_{ij} \frac{\partial PF_{ij}}{\partial \theta_i}$$

The Jacobian matrix appearing in (5.72) is a singular matrix having its first n rows linearly independent and its last n rows linearly dependent with rank $n-1$. Hence, by removing at least one equation from the last n equations, the matrix can be inverted. Therefore, if the real and reactive power LMPs at any bus are known, the remaining real and reactive power LMPs can be determined. This results in an expression for LMPs in the form given in (5.68) and (5.69). This procedure is demonstrated for a 3 bus system in Appendix C.

After determining the partial derivatives, equations (5.68) and (5.69) can be rearranged to obtain a relationship for the LMP difference between any two real power LMPs and any two reactive power LMPs respectively in the detailed form. For instance, if bus j is the reference bus, the difference in LMPs between bus j and any other bus i can be written as given below. However, the associated partial derivatives are only meaningful, when one bus is a load bus and the other bus is a generator bus. In fact, later in Section 5.4.2, it is shown that only the LMP difference between a load bus and a generator bus is considered in the presented analysis.

$$\lambda_j - \lambda_i = \lambda_j \left[\frac{\partial P^L}{\partial P_i} \right] + \sigma_j \left[\frac{\partial Q^L}{\partial P_i} \right] + \sum_{ij \in T} \mu_{ij} \left(\frac{\partial PF_{ij}}{\partial P_i} \right) + \sum_{i \in I} \phi_i \left(\frac{\partial V_i}{\partial P_i} \right) \quad \forall i$$

$$\sigma_j - \sigma_i = \lambda_j \left[\frac{\partial P^L}{\partial Q_i} \right] + \sigma_j \left[\frac{\partial Q^L}{\partial Q_i} \right] + \sum_{ij \in T} \mu_{ij} \left(\frac{\partial PF_{ij}}{\partial Q_i} \right) + \sum_{i \in I} \phi_i \left(\frac{\partial V_i}{\partial Q_i} \right) \quad \forall i$$

5.4.2 Calculation of Components of Network Rental For a System Having a Single Load Bus

Network Rental (NR) is the difference between what consumers pay and what generators get paid. This can be mathematically stated as,

$$\begin{aligned}
 NR &= NR_P + NR_Q \\
 &= \sum_{i \in I} \lambda_i \left[P_{Di} - \sum_{k \in B_i} P_{ik} \right] + \sum_{i \in I} \sigma_i [Q_{Di} - Q_{gi}] \quad (5.73)
 \end{aligned}$$

where NR_P and NR_Q are the rentals due to real and reactive power dispatch respectively.

With the known dispatch and hence with the known LMPs, the network rental due to real and reactive power dispatch can be separately calculated from (5.73), despite, how each consumer contributes to the total network rental is still unknown. However, if the system has only one load, then it is obvious that the total network rental is paid by that consumer. Therefore, the total generation is to cater that single load and the associated losses. Hence, (5.73) can be expressed in terms of LMP differences between each generator bus and the load bus, corresponding power injections, and losses, in order to calculate the loss rental and the constraint rental paid by the single consumer.

This is explained using a simple 3 bus system, where the single line diagram is shown in figure 5.4. In the presentation of results, all the real and reactive power values are in MW or MVar, voltages are in pu, prices are in \$/h, and marginal prices are in \$/MWh, \$/MVarh or \$/pu.h depending on the quantity considered. There are two generators connected to buses 1 and 2. Bus 3 has a real and reactive power load of 1000 and 300 respectively. Line data for the 3 bus system are shown in figure 5.4, and the generator bid data for the two generators are given in table 5.7. Further, it is assumed that the reactive power from generators is free and only constrained by maximum and minimum limits of ± 1000 MVar. Each line has a limit of 700 MW and

the maximum and minimum voltage limits of each bus is set to 1.1 pu and 0.90 pu respectively. The real and reactive power dispatch obtained by solving a NLP-OPF

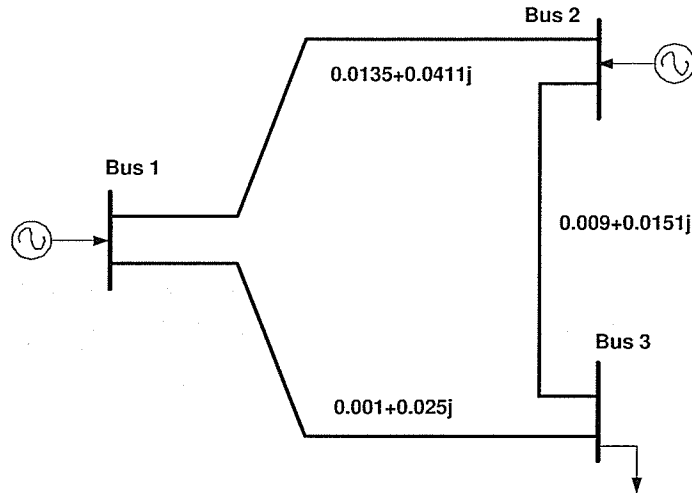


Figure 5.4: 3 bus system

Table 5.7: Generator bid data

Bus	bid 1		bid 2		S_i^Q
	P_{ik}^B	S_{ik}^B	P_{ik}^B	S_{ik}^B	
1	250	3.60	750	5.20	0.0
2	600	3.20	400	4.20	0.0

are given in table 5.8. It can be seen that the expensive generation at bus 1 (i.e., bid 2) is partly dispatched, without fully dispatching the cheaper generation at bus 2 (i.e., bid 2). This is expected because the power system operates on the binding line flow constraints as evident from the non-zero marginal cost for PF_{23} given in table 5.9.

Table 5.8: Generation dispatch

Bus	P_{ik}		Q_{gi}
	bid 1	bid 2	
1	250.00	55.33	309.51
2	600.00	133.79	95.59

Apart from the binding line flow PF_{23} , voltages at buses 1 and 2 are also binding, resulting in three binding constraints altogether, as shown in table 5.9. The associated

Table 5.9: Binding constraints

constraint	quantity	shadow cost
PF_{23}	700 MW	1.37
V_1	1.10 pu	194.36
V_2	1.10 pu	253.21

Lagrangian multipliers or the shadow costs are also shown in table 5.9, which implies that the cost of operation can be reduced by that amount if the corresponding binding constraint could be relieved by a unit, or more precisely the sensitivity of operation cost to the limiting value of that constraint.

From (5.73), the total network rental can be calculated by analyzing the payments made/received by each generator and the consumer separately as tabulated in table 5.10. This shows that the rental paid by the consumer due to real and reactive power dispatch are 1148.39 and 57.90 respectively for the case considered.

Table 5.10: Network rental for the 3 bus system

Bus	LMP		Generator Receipt		Consumer Payment	
	P	Q	P	Q	P	Q
1	5.20	0.00	1587.69	0.00	0.00	0.00
2	4.20	0.00	3081.91	0.00	0.00	0.00
3	5.82	0.19	0.00	0.00	5818.00	57.90
	Total		4669.60	0.00	5818.00	57.90
			Network Rental		1148.39	57.90

By expanding the first term in (5.73), the rental paid by the consumer due to real power dispatch NR_P can be written as,

$$NR_P = 1000\lambda_3 - [(250 + 55.33)\lambda_1 + (600 + 133.79)\lambda_2]$$

After rearranging the terms this can be rewritten as,

$$NR_P = 305.33[\lambda_3 - \lambda_1] + 733.79[\lambda_3 - \lambda_2] - 39.02\lambda_3 \quad (5.74)$$

As pointed out earlier, (5.74) indicates that the real power rental paid by the consumer can be expressed in terms of LMP differences between each generator bus and the

load bus, corresponding power injections, and losses (i.e., $P_1=305.33$, $P_2=733.79$ and $P^L=39.02$).

For known λ_3 and σ_3 , (5.68) can be used to decompose λ_1 and λ_2 in the detailed form as given below. It is important to note that the required partial derivatives are with respect to an injection at a generator bus (i.e., P_1 or P_2), while withdrawing from the load bus. Thus, the load bus needs to be taken as the reference bus.

$$\begin{aligned}\lambda_1 &= \lambda_3 \left[1 - \frac{\partial P^L}{\partial P_1} \right] + \sigma_3 \left[-\frac{\partial Q^L}{\partial P_1} \right] - \mu_{23} \left[\frac{\partial PF_{23}}{\partial P_1} \right] - \phi_1 \left[\frac{\partial V_1}{\partial P_1} \right] - \phi_2 \left[\frac{\partial V_2}{\partial P_1} \right] \\ \lambda_2 &= \lambda_3 \left[1 - \frac{\partial P^L}{\partial P_2} \right] + \sigma_3 \left[-\frac{\partial Q^L}{\partial P_2} \right] - \mu_{23} \left[\frac{\partial PF_{23}}{\partial P_2} \right] - \phi_1 \left[\frac{\partial V_1}{\partial P_2} \right] - \phi_2 \left[\frac{\partial V_2}{\partial P_2} \right]\end{aligned}$$

Thereby, the required LMP differences can be calculated as,

$$\begin{aligned}\lambda_3 - \lambda_1 &= \lambda_3 \left[\frac{\partial P^L}{\partial P_1} \right] + \sigma_3 \left[\frac{\partial Q^L}{\partial P_1} \right] + \mu_{23} \left[\frac{\partial PF_{23}}{\partial P_1} \right] + \phi_1 \left[\frac{\partial V_1}{\partial P_1} \right] + \phi_2 \left[\frac{\partial V_2}{\partial P_1} \right] \\ \lambda_3 - \lambda_2 &= \lambda_3 \left[\frac{\partial P^L}{\partial P_2} \right] + \sigma_3 \left[\frac{\partial Q^L}{\partial P_2} \right] + \mu_{23} \left[\frac{\partial PF_{23}}{\partial P_2} \right] + \phi_1 \left[\frac{\partial V_1}{\partial P_2} \right] + \phi_2 \left[\frac{\partial V_2}{\partial P_2} \right]\end{aligned}$$

The above LMP differences are then substituted in the expression of NR_P in (5.74) to yield,

$$\begin{aligned}NR_P &= \lambda_3 \left[\frac{\partial P^L}{\partial P_1} P_1 + \frac{\partial P^L}{\partial P_2} P_2 - P^L \right] + \sigma_3 \left[\frac{\partial Q^L}{\partial P_1} P_1 + \frac{\partial Q^L}{\partial P_2} P_2 \right] \\ &\quad + \mu_{23} \left[\left(\frac{\partial PF_{23}}{\partial P_1} \right) P_1 + \left(\frac{\partial PF_{23}}{\partial P_2} \right) P_2 \right] \\ &\quad + \phi_1 \left[\left(\frac{\partial V_1}{\partial P_1} \right) P_1 + \left(\frac{\partial V_1}{\partial P_2} \right) P_2 \right] + \phi_2 \left[\left(\frac{\partial V_2}{\partial P_1} \right) P_1 + \left(\frac{\partial V_2}{\partial P_2} \right) P_2 \right]\end{aligned}$$

This reveals that the first term of the above expression is the real power loss rental paid by the consumer, as it is the difference between the marginal loss and the average loss. Similarly the second term indicates the reactive power loss rental. The final three terms are the constraint rental paid by the consumer due to the three binding constraints PF_{23} , V_1 , and V_2 respectively.

The same analysis can be done to determine the rental paid by the consumer due

to reactive power dispatch, NR_Q . Thereby, all the components of network rental paid by the consumer can be summarized as shown in table 5.11, where real power loss rental and reactive power loss rental are given in columns 3 and 4 respectively, and constraint rental due to PF_{23} , V_1 , and V_2 are given in the final three columns respectively. Note that partial derivatives appearing in the above LMP differences have been numerically verified using a sensitivity analysis [57].

Table 5.11: Components of network rental

	Network Rental					
	total	loss rental		constraint rental		
NR_P	1148.39	177.12	32.82	927.39	1.82	9.41
NR_Q	57.90	24.84	-14.84	31.70	10.13	6.03

This reveals that the bulk of the network rental collected by the ISO is due to the binding line flow constraint PF_{23} for the case considered. This is because the binding line flow constraint caused significant out of merit order dispatch of generator bids, as evident from the generation dispatch given in table 5.8. This results in charging the consumer at a higher LMP (greater than the highest bid dispatched) for the total load, while the partly dispatched cheaper generator, which supplies part of the load, only receives at a low LMP (equal to its bid price) for the amount dispatched.

Further, a significant network rental is accumulated in the form of real power loss rental with the ISO. Likewise, all the components of network rental paid by the consumer can be quantitatively analyzed to get a better picture of what leads to the accumulation of network rental.

In practice, however, there exist more than one load in the system. If each load can be traced to all the dispatched generators (i.e., how each load is supplied by the dispatched generators in the system), then the single load bus approach presented in this section can still be applied to obtain the rental components for a general case of multiple load buses. Due to the nonlinear nature of the power flow, it is impossible to accurately determine the generator contributions to each load [61]. However, power flow tracing methods [58], [59], and the recently proposed Equivalent

Bilateral Exchanges (EBE) technique [60] can be used to approximately determine the generator contribution to each load. Each method gives rise to a different generator allocation, and thus, the chosen method should be agreeable to all the participants of the market.

5.4.3 Separation of Network Rental Among Consumers Using Power Flow Tracing

Tracing methods were originally proposed in transmission pricing [61] to cover the fixed transmission cost based on actual usage of the network by each participant. There are different tracing methods proposed in the literature such as Bialek tracing method [58] and Kirschen tracing method [59]. Tracing methods are topological in nature and can be used to trace both real and reactive power. This makes possible finding the contribution of each generating unit into each load separately. The other advantage is that power flow tracing allows the determination of the transmission losses apportioned to each load [58], which is also required for the proposed analysis.

Both of these methods are based on the proportional sharing principle, which states that each outflow leaving a node contains the same proportion of the inflows. Note that in these methods, the real and reactive power flows obtained by solving a nonlinear power flow is used to calculate the generator contributions and losses into each load.

Even though, both tracing methods are equally suited for the proposed approach, due to the slight advantage offered in combining with the OPF, Bialek tracing method is selected. This is because, in the Bialek method, tracing is performed based on actual buses in the system whereas in the Kirschen method tracing is done by grouping the buses supplied by the same generator which has to be determined beforehand based on the direction of the power flows in the system. The concept behind the Bialek tracing method is summarized for real power tracing in Appendix D.

A 4 bus system having two generators and two loads, shown in figure 5.5 is used

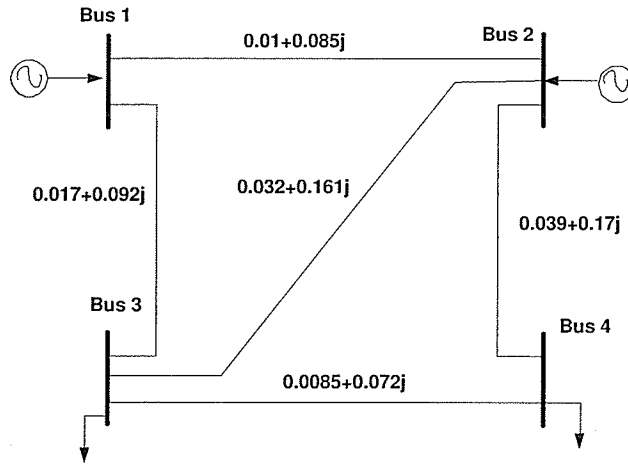


Figure 5.5: 4 bus system

to explain how each rental component is separated for a general case of multiple load bus system. The generator bids, reactive power limits, and voltage limits for this case are the same as for the previous 3 bus case. Buses 3 and 4 have a real and reactive power load of 220, 70 and 120, 10 respectively. Each line has a limit of 120 MW.

The generation dispatch obtained by solving a NLP-OPF for this case is given in table 5.12. It reveals that the generation dispatch is out of merit order due to the binding line flow constraint, PF_{23} , as evident from the non-zero shadow cost given in table 5.13.

Table 5.12: Generation dispatch

Bus	P_{ik}		Q_{gi}
	bid 1	bid 2	
1	3.45	0.00	88.47
2	348.97	0.00	55.46

Table 5.13: Binding constraints

constraint	quantity	shadow cost
PF_{23}	120 MW	1.74
V_2	1.10 pu	93.77

The real power flows along the lines are shown in figure 5.6. Based on line flows, the matrices A_u , PF_{ij}^{gross} , and vectors P^{gross} , P_D^{gross} , PL_{app} are calculated as explained

in Appendix D.

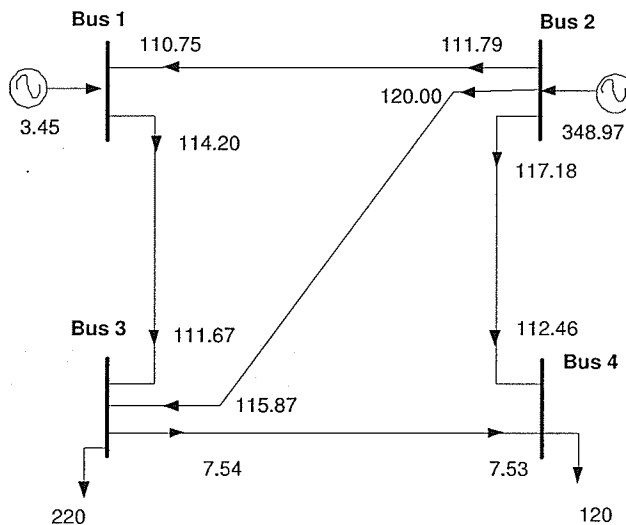


Figure 5.6: Real power flows for the 4 bus system

$$A_u = \begin{pmatrix} 1 & -\frac{111.79}{348.97} & 0 & 0 \\ 0 & 1 & 0 & 0 \\ -\frac{114.20}{114.20} & -\frac{120.00}{348.97} & 1 & 0 \\ 0 & -\frac{117.18}{348.97} & -\frac{7.54}{227.54} & 1 \end{pmatrix} \Rightarrow A_u^{-1} = \begin{pmatrix} 1.000 & 0.317 & 0.000 & 0.000 \\ 0.000 & 1.000 & 0.000 & 0.000 \\ 1.000 & 0.661 & 1.000 & 0.000 \\ 0.033 & 0.358 & 0.033 & 1.000 \end{pmatrix}$$

$$P^{gross} = \begin{pmatrix} 115.24 \\ 348.97 \\ 235.24 \\ 124.98 \end{pmatrix} \quad P_D^{gross} = \begin{pmatrix} 0.00 \\ 0.00 \\ 227.45 \\ 124.98 \end{pmatrix} \quad PL_{app} = \begin{pmatrix} 0.00 \\ 0.00 \\ 7.45 \\ 4.98 \end{pmatrix}$$

$$PF_{ij}^{gross} = \begin{pmatrix} 0.00 & 111.79 & 0.00 & 0.00 \\ 3.45 & 111.79 & 0.00 & 0.00 \\ 0.00 & 120.00 & 0.00 & 0.00 \\ 0.00 & 117.18 & 0.00 & 0.00 \\ 0.11 & 7.68 & 0.00 & 0.00 \end{pmatrix}$$

CHAPTER 5 - ANALYZING MARKET SIGNALS

Thereby how each load and the apportioned losses supplied by each generator is determined and are shown in figure 5.7. For example, there is 7.45 MW of associated losses in catering 220 MW at bus 3 and generators at bus 1 and 2 supply this load and the losses in part by 3.34 MW and 224.10 MW respectively. Similarly, there is 4.98 MW of associated losses in catering 120 MW at bus 4 and generators at bus 1 and 2 supply this in part by 0.11 MW and 124.87 MW respectively (the underlined values shown in figure 5.7).

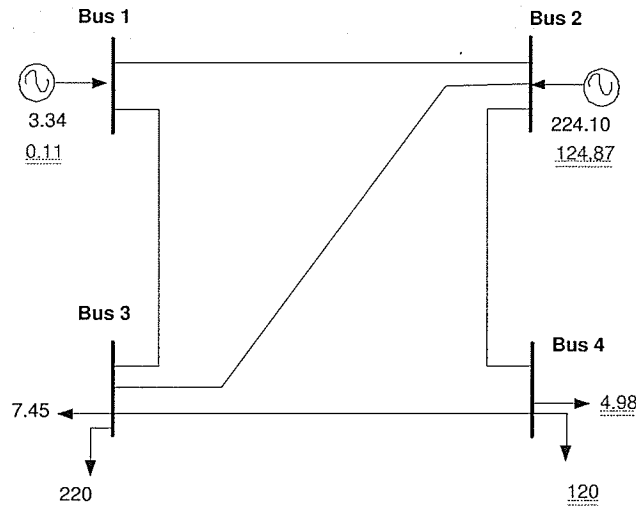


Figure 5.7: Generator contributions and apportioned losses for each load

As before, the total network rental paid by the two consumers is calculated and presented in table 5.14. This shows that the rental paid by both consumers due to real and reactive power dispatch are 254.36 and 5.41 respectively for the case considered.

Table 5.14: Network rental for the 4 bus system

Bus	LMP		Generator Receipt		Consumer Payment	
	P	Q	P	Q	P	Q
1	3.60	0.00	12.42	0.00	0.00	0.00
2	3.20	0.00	1116.70	0.00	0.00	0.00
3	4.13	0.07	0.00	0.00	909.48	4.62
4	3.95	0.08	0.00	0.00	474.00	0.79
	Total		1129.12	0.00	1383.48	5.41
	Network Rental				254.36	5.41

CHAPTER 5 - ANALYZING MARKET SIGNALS

Once the tracing is done, the power system can be viewed as several independent networks each having a single load. Therefore, the method developed in Section 5.4.2 for a single load network can be repeatedly applied for each network to determine the network rental paid by each consumer. In this way NR_P can be written as,

$$\begin{aligned} NR_P &= 220\lambda_3 - [3.34\lambda_1 + 223.10\lambda_2] + 120\lambda_4 - [0.11\lambda_1 + 124.83\lambda_2] \\ &= 3.34[\lambda_3 - \lambda_1] + 223.10[\lambda_3 - \lambda_2] - 6.44\lambda_3 + 0.11[\lambda_4 - \lambda_1] + 124.83[\lambda_4 - \lambda_2] - 4.94\lambda_4 \\ &= NR_{P3} + NR_{P4} \end{aligned}$$

Taking bus 3 as the reference bus,

$$\begin{aligned} \lambda_1 &= \lambda_3 \left[1 - \frac{\partial P^L}{\partial P_1} \right] + \sigma_3 \left[-\frac{\partial Q^L}{\partial P_1} \right] - \mu_{23} \left[\frac{\partial P_{23}}{\partial P_1} \right] - \phi_2 \left[\frac{\partial V_2}{\partial P_1} \right] \\ \lambda_2 &= \lambda_3 \left[1 - \frac{\partial P^L}{\partial P_2} \right] + \sigma_3 \left[-\frac{\partial Q^L}{\partial P_2} \right] - \mu_{23} \left[\frac{\partial P_{23}}{\partial P_2} \right] - \phi_2 \left[\frac{\partial V_2}{\partial P_2} \right] \end{aligned}$$

Thereby, the required LMP differences to calculate NR_{P3} are,

$$\begin{aligned} \lambda_3 - \lambda_1 &= \lambda_3 \left[\frac{\partial P^L}{\partial P_1} \right] + \sigma_3 \left[\frac{\partial Q^L}{\partial P_1} \right] + \mu_{23} \left[\frac{\partial PF_{23}}{\partial P_1} \right] + \phi_2 \left[\frac{\partial V_2}{\partial P_1} \right] \\ \lambda_3 - \lambda_2 &= \lambda_3 \left[\frac{\partial P^L}{\partial P_2} \right] + \sigma_3 \left[\frac{\partial Q^L}{\partial P_2} \right] + \mu_{23} \left[\frac{\partial PF_{23}}{\partial P_2} \right] + \phi_2 \left[\frac{\partial V_2}{\partial P_2} \right] \end{aligned}$$

Similarly, taking bus 4 as the reference bus, the required LMP differences to calculate NR_{P4} are,

$$\begin{aligned} \lambda_4 - \lambda_1 &= \lambda_4 \left[\frac{\partial P^L}{\partial P_1} \right] + \sigma_4 \left[\frac{\partial Q^L}{\partial P_1} \right] + \mu_{23} \left[\frac{\partial PF_{23}}{\partial P_1} \right] + \phi_2 \left[\frac{\partial V_2}{\partial P_1} \right] \\ \lambda_4 - \lambda_2 &= \lambda_4 \left[\frac{\partial P^L}{\partial P_2} \right] + \sigma_4 \left[\frac{\partial Q^L}{\partial P_2} \right] + \mu_{23} \left[\frac{\partial PF_{23}}{\partial P_2} \right] + \phi_2 \left[\frac{\partial V_2}{\partial P_2} \right] \end{aligned}$$

Substituting for LMP differences in the above expression for NR_P , the rental paid by consumers at buses 3 and 4 due to real power dispatch (i.e., NR_{P3} and NR_{P4}) can be determined separately in terms of loss rental and constraint rental.

$$\begin{aligned}
 NR_P = & \lambda_3 \left[\frac{\partial P^L}{\partial P_1} P_1 + \frac{\partial P^L}{\partial P_2} P_2 - P^L \right] + \sigma_3 \left[\frac{\partial Q^L}{\partial P_1} P_1 + \frac{\partial Q^L}{\partial P_2} P_2 \right] \\
 & + \mu_{23} \left[\left(\frac{\partial P_{23}}{\partial P_1} \right) P_1 + \left(\frac{\partial P_{23}}{\partial P_2} \right) P_2 \right] + \phi_2 \left[\left(\frac{\partial V_2}{\partial P_1} \right) P_1 + \left(\frac{\partial V_2}{\partial P_2} \right) P_2 \right] \\
 & + \lambda_4 \left[\frac{\partial P^L}{\partial P_1} P_1 + \frac{\partial P^L}{\partial P_2} P_2 - P^L \right] + \sigma_4 \left[\frac{\partial Q^L}{\partial P_1} P_1 + \frac{\partial Q^L}{\partial P_2} P_2 \right] \\
 & + \mu_{23} \left[\left(\frac{\partial P_{23}}{\partial P_1} \right) P_1 + \left(\frac{\partial P_{23}}{\partial P_2} \right) P_2 \right] + \phi_2 \left[\left(\frac{\partial V_2}{\partial P_1} \right) P_1 + \left(\frac{\partial V_2}{\partial P_2} \right) P_2 \right]
 \end{aligned}$$

A similar analysis can be done to determine the rental paid by consumers due to the reactive power dispatch as well (i.e., NR_{Q3} and NR_{Q4}). The results can be summarized as given in table 5.15, where real power loss rental and reactive power loss rental are given in columns 3 and 4 respectively, and constraint rental due to PF_{23} and V_2 are given in the final two columns respectively. A closer look confirms that the summation of NR_{P3} and NR_{P4} ; and NR_{Q3} and NR_{Q4} equal to the previously calculated values given in table 5.14.

Table 5.15: Components of network rental

	Network Rental				
	total	loss rental		constraint rental	
NR_{P3}	179.78	23.87	4.73	151.43	-0.25
NR_{P4}	74.72	11.62	3.26	60.33	-0.50
NR_{Q3}	4.65	4.82	-2.17	-2.80	4.79
NR_{Q4}	0.79	0.58	-1.93	0.07	2.07

As before, the individual rental components can be analyzed to determine the market signals. This is further discussed in Chapter 7 in more detail.

5.4.4 Discussion

The proposed method is evaluated using small 3 and 4 bus systems for convenience in understanding. However, the formulation of equations are general and therefore applicable for any large system.

When a particular bus consists of both dispatched generators and loads, and if the dispatched generation is greater than the load, then the particular consumer

does not pay any rental to the ISO. This is because neither associated losses nor binding constraints are associated with the delivery to that particular load. On the other hand, if the dispatched generation is less than the load, then the particular consumer pays the network rental only for the portion of the load supplied by other dispatched generators in the system. Even though, this situation did not arise in the two examples considered in this chapter, the proposed method does consider this automatically, as the net injection is only taken into account in power flow tracing.

Using this method, the components of network rental due to any binding constraint can be calculated separately. The Dynamic Security Constraint (DSC), discussed in Chapter 4 to obtain a secure dispatch, will also generate a constraint rental component, when the DSC is binding at the solution [51]. Therefore, the portion of the rental paid by each consumer due to the DSC can also be calculated from the proposed method, which is discussed in detail in Chapter 7.

5.5 Concluding Remarks

This chapter discussed different ways of analyzing market signals. Correct market signals are always sought, as they provide necessary incentives for the market participants.

As far as the present market operation is concerned, LMPs provide crucial market signals for the participants. On the other hand, the components of LMP can be considered as better market signals as they show the explicit decomposition of LMP due to marginal generators and binding constraints. However, LMP components do not provide the effects of the transmission losses explicitly. This has been demonstrated using a simple 3 bus system. The physical meaning of these individual LMP components has also been explained using the results of this 3 bus system.

A new method to analyze the market signals has been proposed in this chapter by means of analyzing the components of network rental. In this regard, a method to decompose the network rental among the consumers into loss rental, and constraint

rental due to each binding constraint, has been proposed by combining the power flow tracing and KKT optimality conditions of the NLP-OPF. The proposed method first determines the rental components for a single load bus by mathematically expressing the network rental in terms of LMP differences. The implicitly calculated sensitivity values, based on post processed KKT optimality conditions, are then substituted for the above LMP differences. This has then been extended to a general case of multiple load buses by tracing the power flow to identify how each load and the associated transmission losses are supplied by the generators in the system.

The novelty of the proposed method is that it yields the breakdown of network rental paid by each individual consumer into its components due to losses and binding constraints. The proposed method also utilizes an efficient way to calculate the LMP difference between two buses by implicitly calculating the individual components using the post processed KKT optimality conditions of the NLP-OPF.

As the network rental is an overpayment made by the consumers due to the losses and the binding constraints imposed by the OPF, it has been argued that these components do provide better market signals than LMP or LMP components. Several case studies have been presented using simple 3 and 4 bus systems by calculating these individual components using the proposed approach. Another case study is presented in Chapter 7, using the reactive power model and the DSC discussed in Chapters 3 and 4.

Chapter 6

Software Implementation

This chapter deals with the implemented software package that incorporates the market signal analysis methods discussed in Chapter 5. Since all these methods rely on the availability of the optimal dispatch, an OPF solver is required to solve the OPF. Recent developments in optimization techniques and the enhancement in computational capability have allowed commercial software packages to be put forward [62], [63], [64], [65] in solving either the general optimization problem or specifically the OPF problem. However, the detailed description of the algorithms used in the different software packages haven't been published and remain trade secrets.

Even though, the mathematics related to optimization is not new, due to the complexity associated with the OPF, solving an OPF is still a challenging task. The OPF was first introduced in early 1960's [1] and since then, different solving techniques have been proposed. These techniques can be broadly classified as;

- Sequential Linear Programming (SLP) [1]
- Newton Based Method [66], [67]
- Sequential Quadrature Programming (SQP) [68]
- Generalized Reduced Gradient Method (GRG) [69]
- Penalty, Barrier, and Augmented Lagrangian Method [70]

It is observed that the matrices associated with the above solution algorithms can be directly used when implementing the market signal analyzing methods. For example, the Hessian matrix associated with the Newton method can be directly used in determining the components of LMPs, while the Jacobian matrix found in the Newton method and the SLP method can be directly utilized in determining the components of the network rental. Further, the solution process of the Newton method implicitly determines the LMPs, while the shadow costs can be easily extracted from the matrices. On the other hand, with the SLP algorithm, LMPs are the dual variables, which can also be easily determined.

However, if a commercial or any other software package is used to obtain the optimal dispatch, the above mentioned matrices are not explicitly available for such a post-process analysis. Thus, implementing the OPF in the software tool is required, so that both optimal dispatch and the associated market signals can be determined without using a separate software package. This allows re-using the already created matrices in incorporating the market signal analysis methods, once the OPF is solved.

This chapter gives an in depth analysis and implementation of two such popular methods to solve the NLP-OPF, the Newton method and the SLP method. Based on the analysis on capabilities of different OPF solving techniques conducted during the literature survey, the above two methods were selected in implementing the OPF. Sections 6.1 and 6.2 explain the corresponding algorithm and implementation issues of the Newton method and the SLP method respectively. Extending the above algorithms to incorporate market signal analyzing methods are also discussed in the respective sections. Finally, in Section 6.3, the performance of the developed software is presented together with the comparison of results against that of the OPF modeled in GAMS optimization software.

6.1 Implementing the Newton Based Approach

The Newton method is well-known in the area of power systems [45]. It has been a standard solution algorithm for the power flow problem for decades. Application of the Newton method in solving an OPF was first found in the literature in 1984 [66]. Rapid convergence near the solution makes the Newton method a very powerful solution algorithm [20]. This property is especially useful for power system applications, because an initial guess near the solution is easily obtained by solving a dc power flow. This method computes the optimal solution by applying Newton-Raphson algorithm to a set of nonlinear equations obtained from the optimality conditions based on the Lagrangian function of the OPF.

6.1.1 The Newton Approach

As discussed in Section 5.1.2; the Lagrangian function of the OPF L is,

$$L(x, \lambda, \mu) = f(x) + \lambda g(x) + \mu h(x) \quad (6.1)$$

The KKT conditions for the Lagrangian equation given in (6.1) can be written as,

$$\frac{\partial L}{\partial x} = \frac{\partial f(x)}{\partial x} + \lambda \frac{\partial g(x)}{\partial x} + \mu \frac{\partial h(x)}{\partial x} = 0 \quad (6.2)$$

$$\frac{\partial L}{\partial \lambda} = g(x) = 0 \quad (6.3)$$

$$\mu h(x) = 0 \quad (6.4)$$

$$\mu \geq 0 \quad (6.5)$$

$$h(x) \leq 0 \quad (6.6)$$

In the Newton approach, the above nonlinear KKT conditions are iteratively solved [66], [67]. The key problem however, is that the binding or the active inequality constraints at the optimal solution are not known beforehand, which makes it difficult to solve. This problem is overcome by removing all the inequality con-