LCCC Workshop on Dynamics, Control and Pricing in Power Systems

Pricing in markets with large amounts of variable power.

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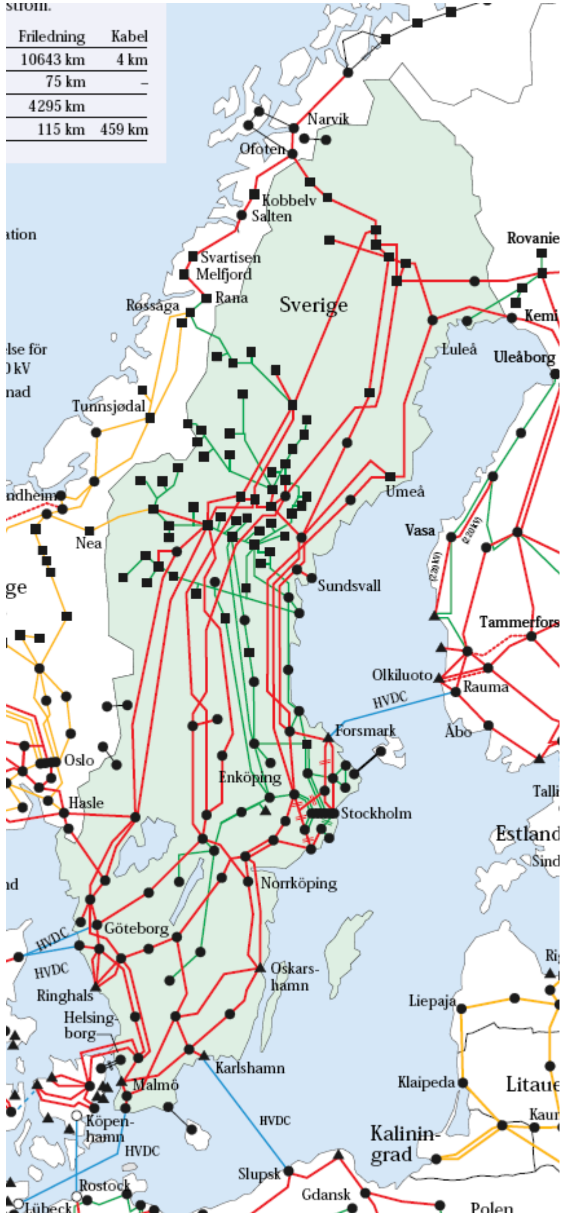
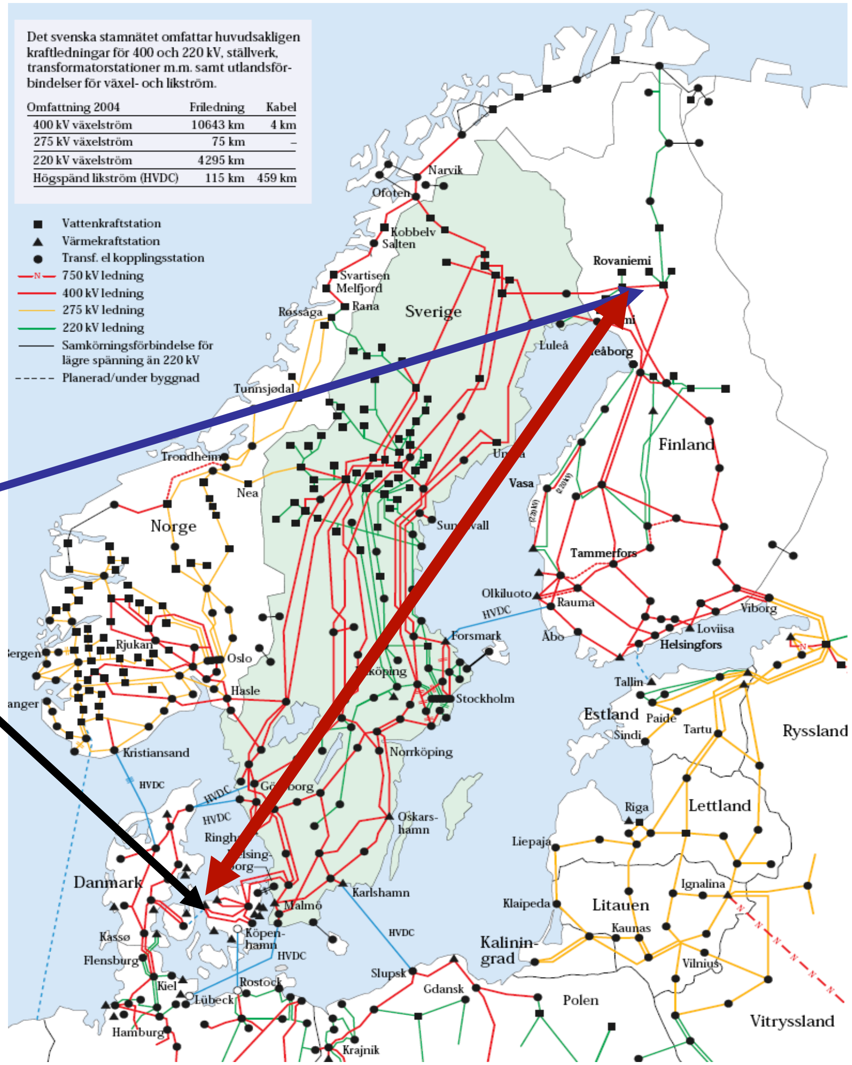
Swedish electricity market

- I consume ≈ **6500 kWh/year**
- The consumption is **measured per hour**, but the application is kWh/month
- I get one invoice from the **grid owner**
- I get one invoice from **the retailer**. I can select among >100 retailers with different prices and contracts

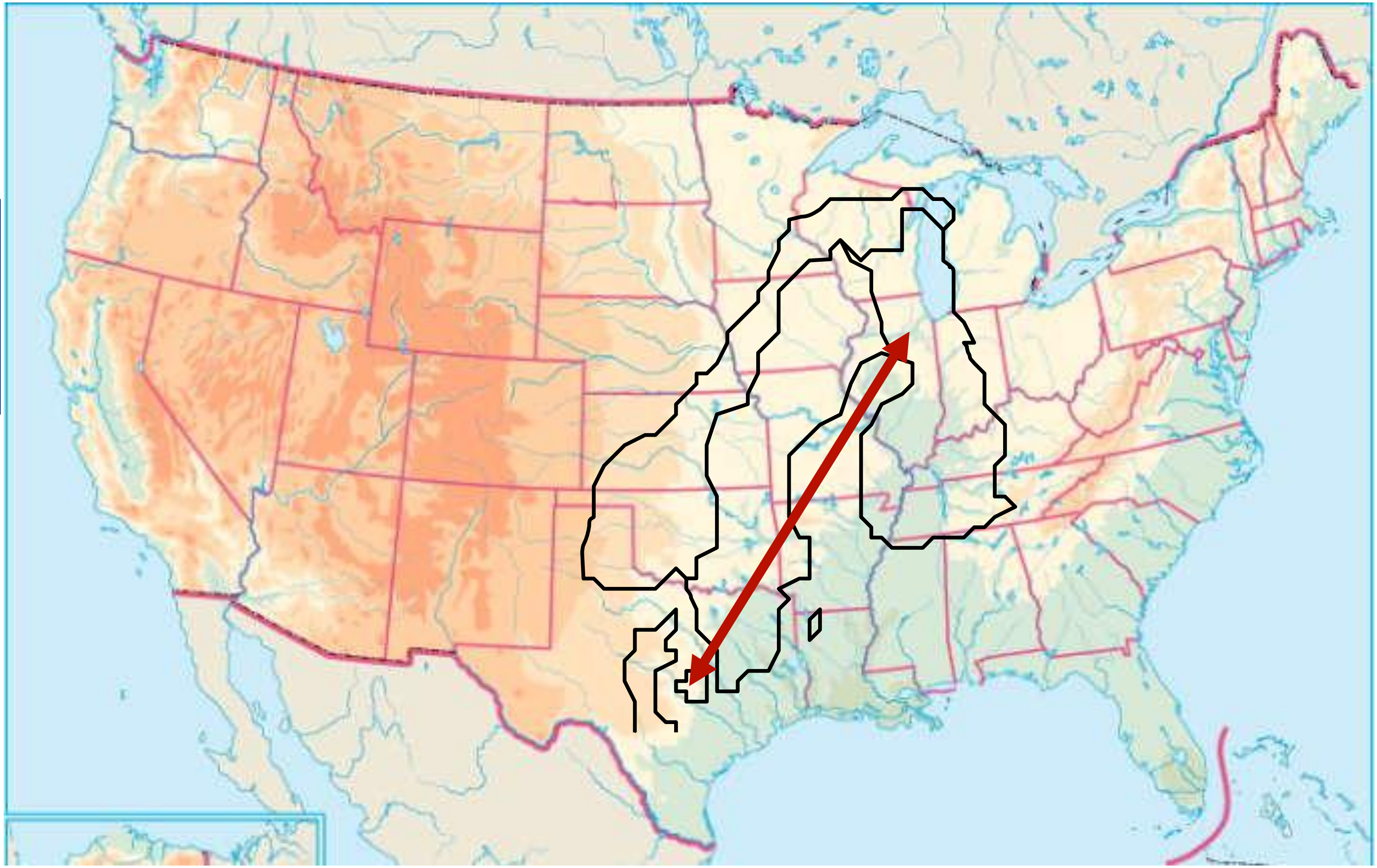


On Nordic Regulating market

- No AGC (except Dk-W)!
- Assume that wind power decreases in Denmark with 100 MW
- The bids to the regulating market (tertiary control – up-regulation in 15 minutes) are coordinated in the Nordic system
- If an up-regulating bid from northern Finland is the cheapest and transmission limits are not violated, then this one is used!
- Distance: ~1400 km ⟷



Nordic countries in USA



Distributed decision-making and control in complex systems:

1. Variable power sources
2. Pricing in power systems
3. Pricing with variable power sources
4. Impact on operation, inter-area trading and investments
5. Competition between DSM, transmission and production
6. Capacity deficit pricing

Aim of a power system:

1. Supply consumers with electricity when they want

   = keeping the continuous balance between production and consumption

   (deregulated ➔ competition)

2. Keep the voltage for the consumers

   (regulated monopolies)

unbundling

Power = current · voltage

Renewable energy systems

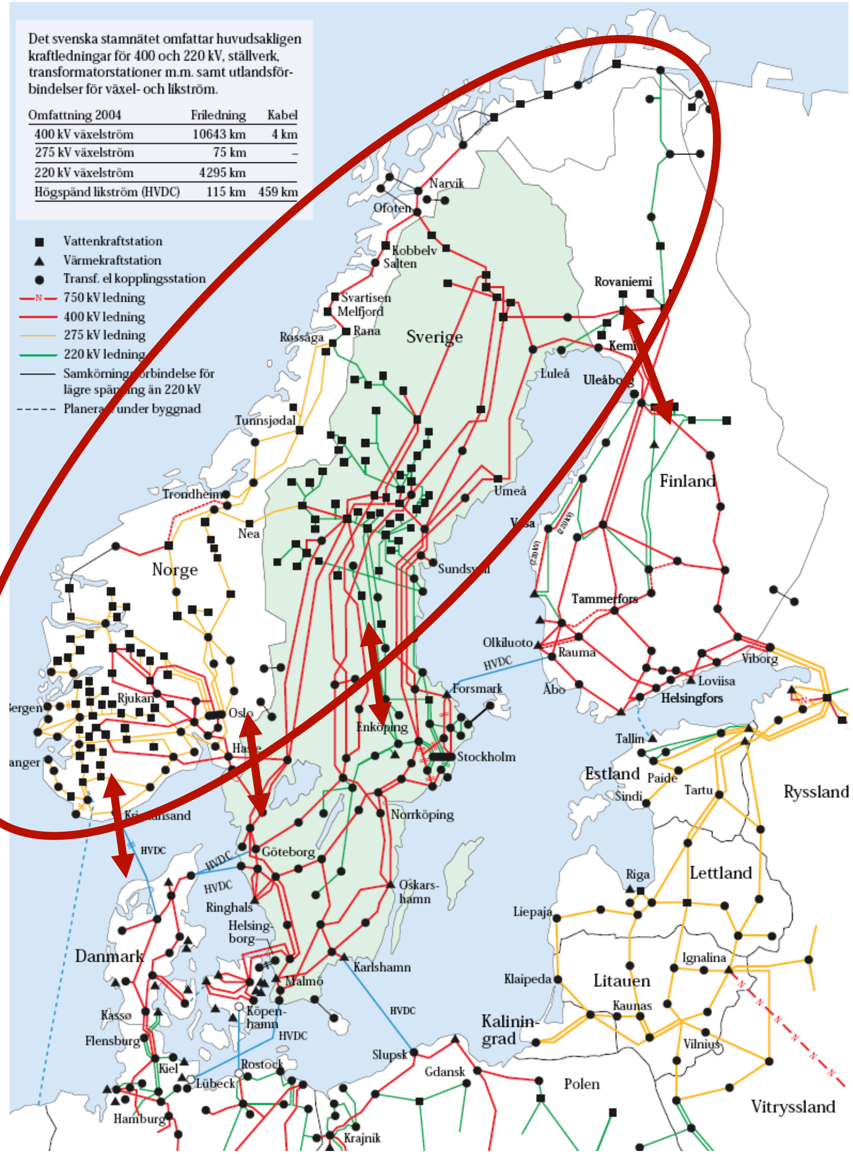
- Energy is ”produced” where the resource is
- The energy has to be transported to consumption center
- The energy inflow varies, which requires storage and/or flexible system solutions

- This is valid for hydro power, **wind power**, solar power

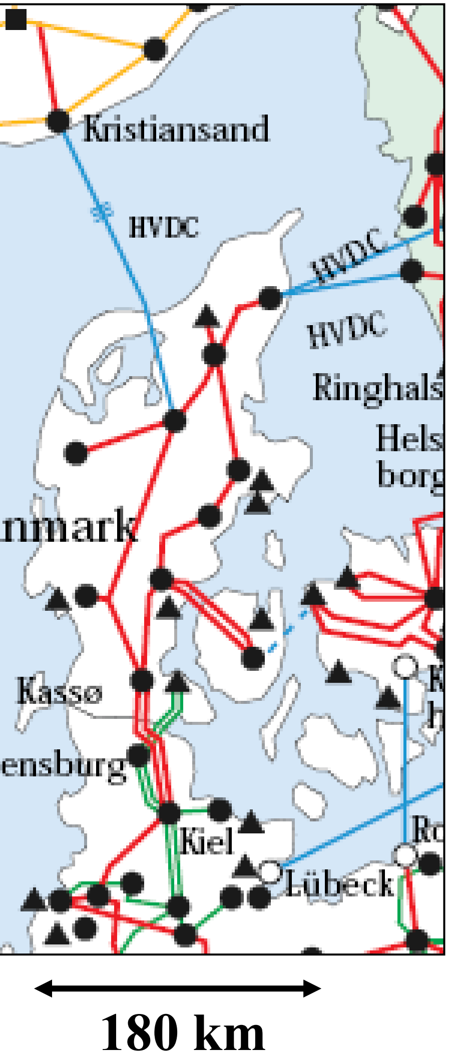
Example

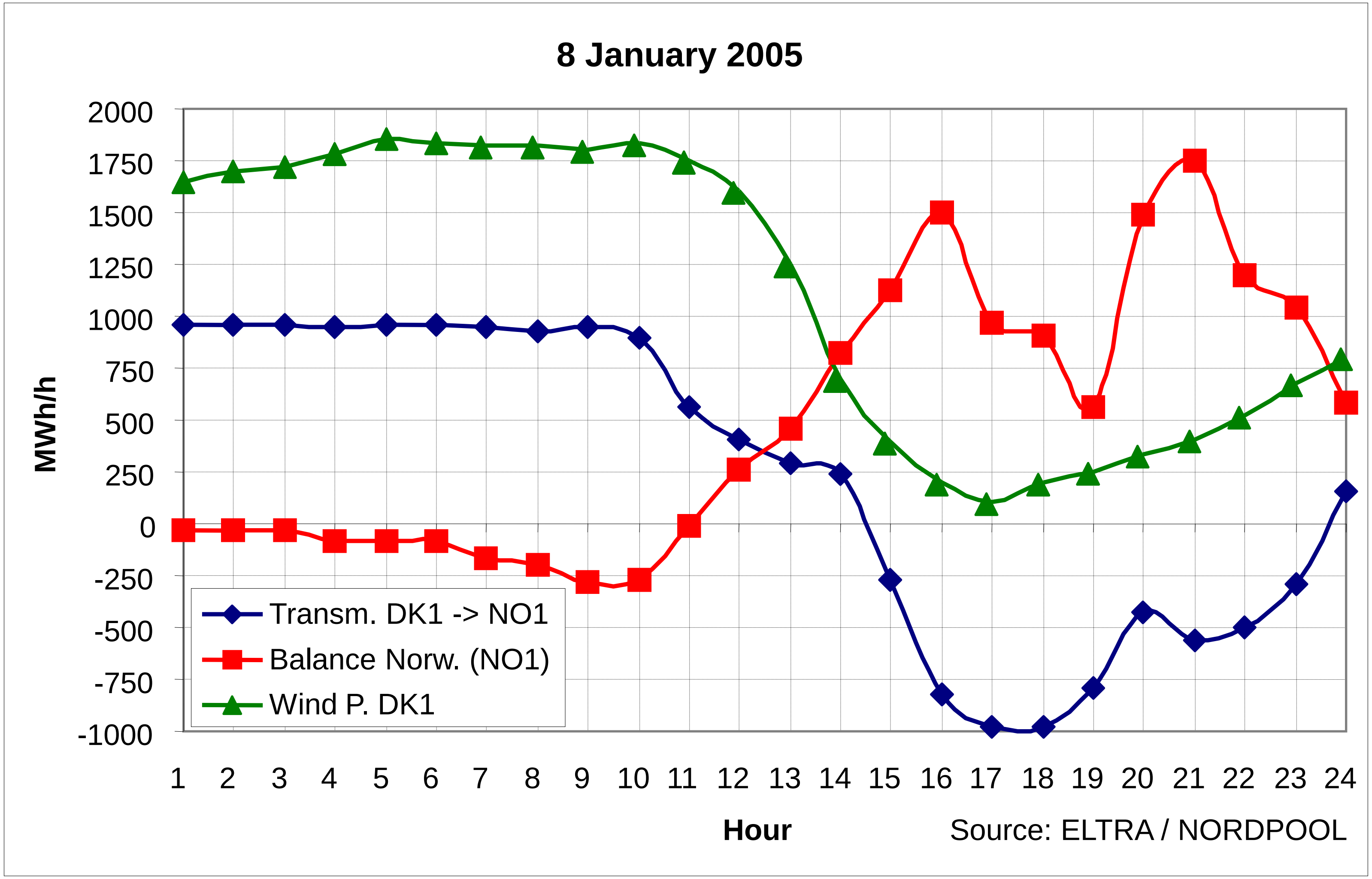
- Nordic hydro inflow can vary 86 TWh between different years (1996, 2001)
- Transport from north Sweden to south Sweden
- Energy **balancing** with thermal power in Da+Fi+Ge+EE+Pl+NL

- **Wind power results in the same type of variations/ uncertainties (and solutions) as hydro power.**
- **But: Time perspective is much shorter!**



Example from Denmark, when a storm front hit the country: -1800 MW in 6 hours

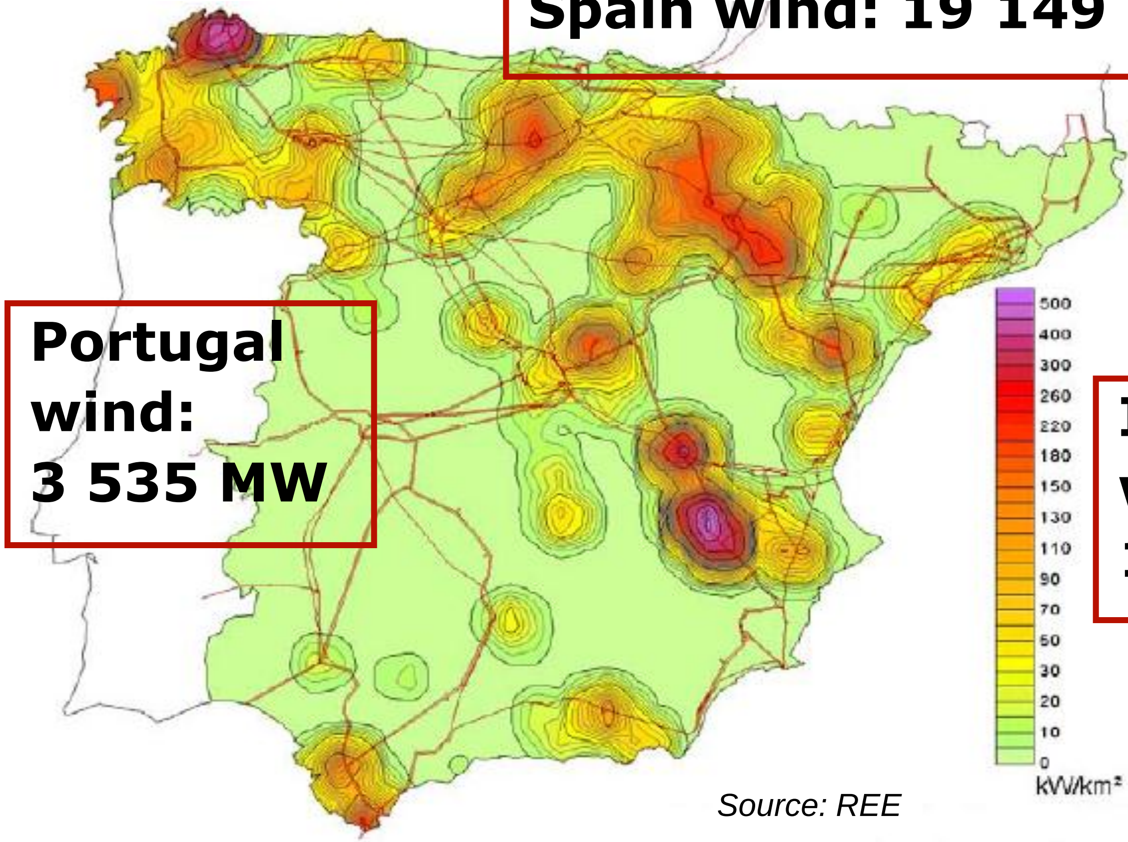




Wind Power and Transmission capacities

Spain wind: 19 149 MW

Portugal wind: 3 535 MW



Source: REE

Ireland wind: 1260 MW

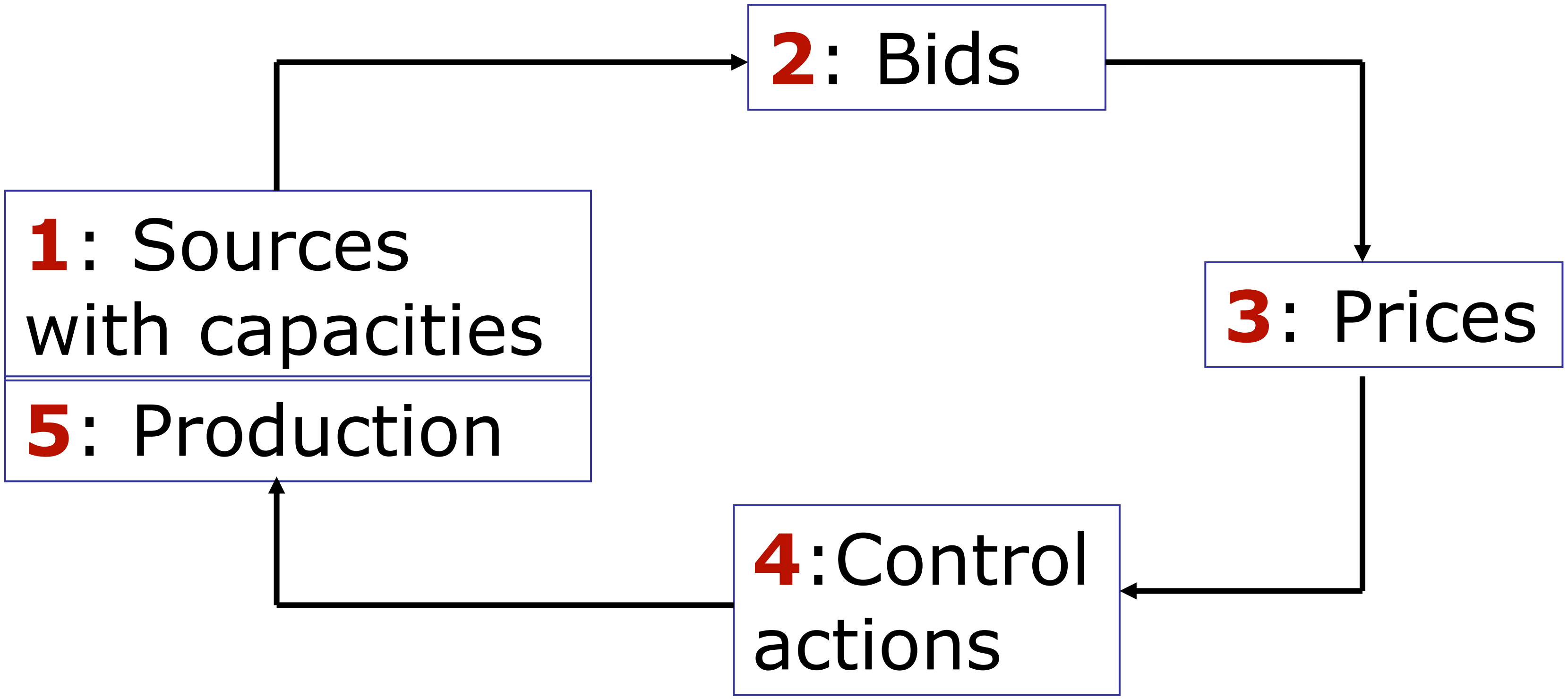
	Wind Energy 2008
Sp	**11 %**
Po	**15 % -09**
Ir	**9 %**

	Wind max share
Sp	**53 %**
Po	**71 %**
Ir	**48 %**

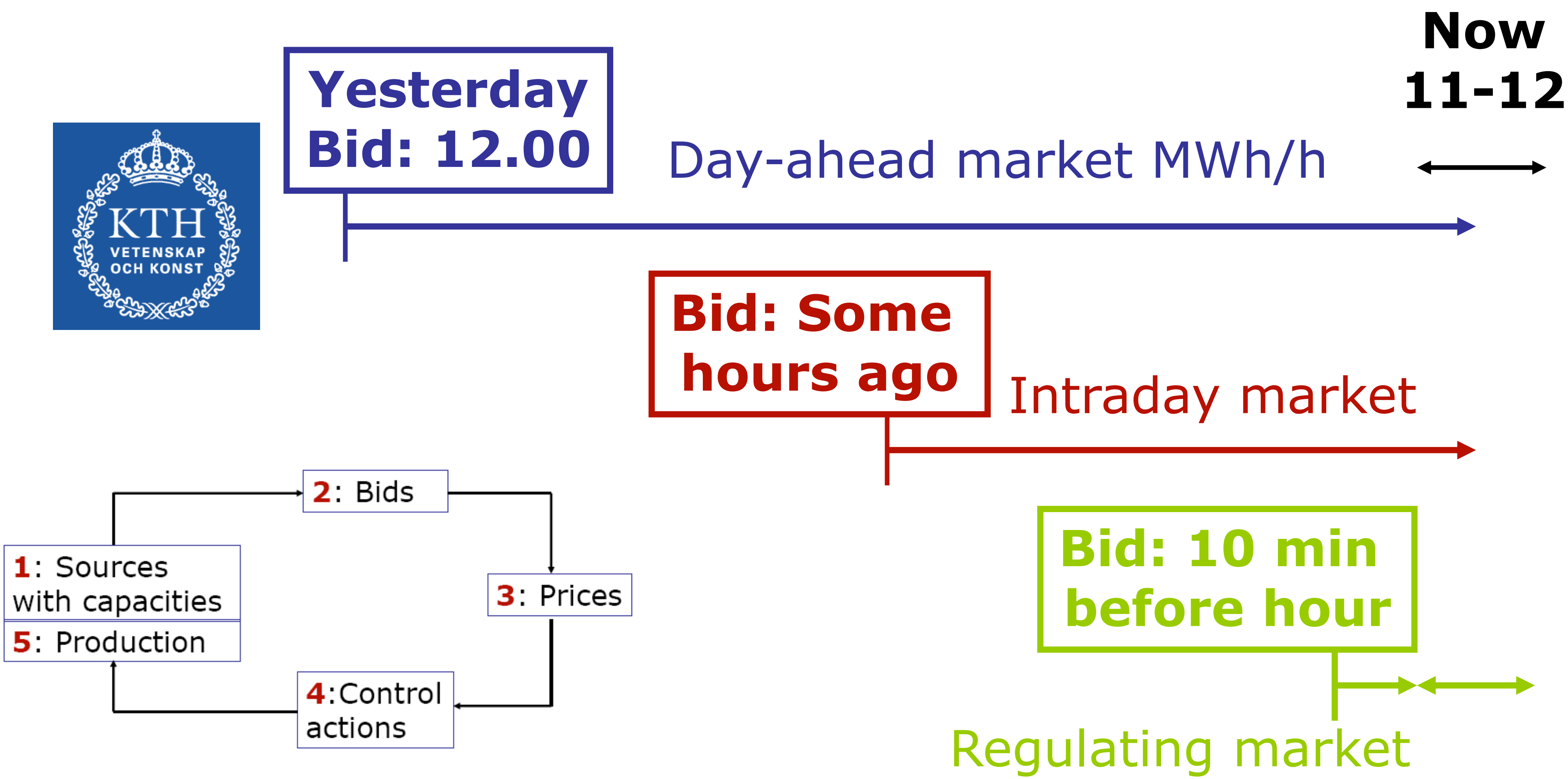
- Portugal –Spain: 1200 MW
- Spain – France: 1200 MW
- Spain – Morocco: 650 MW

- Ireland - Scottland: 450 MW
- Planned: +850 MW

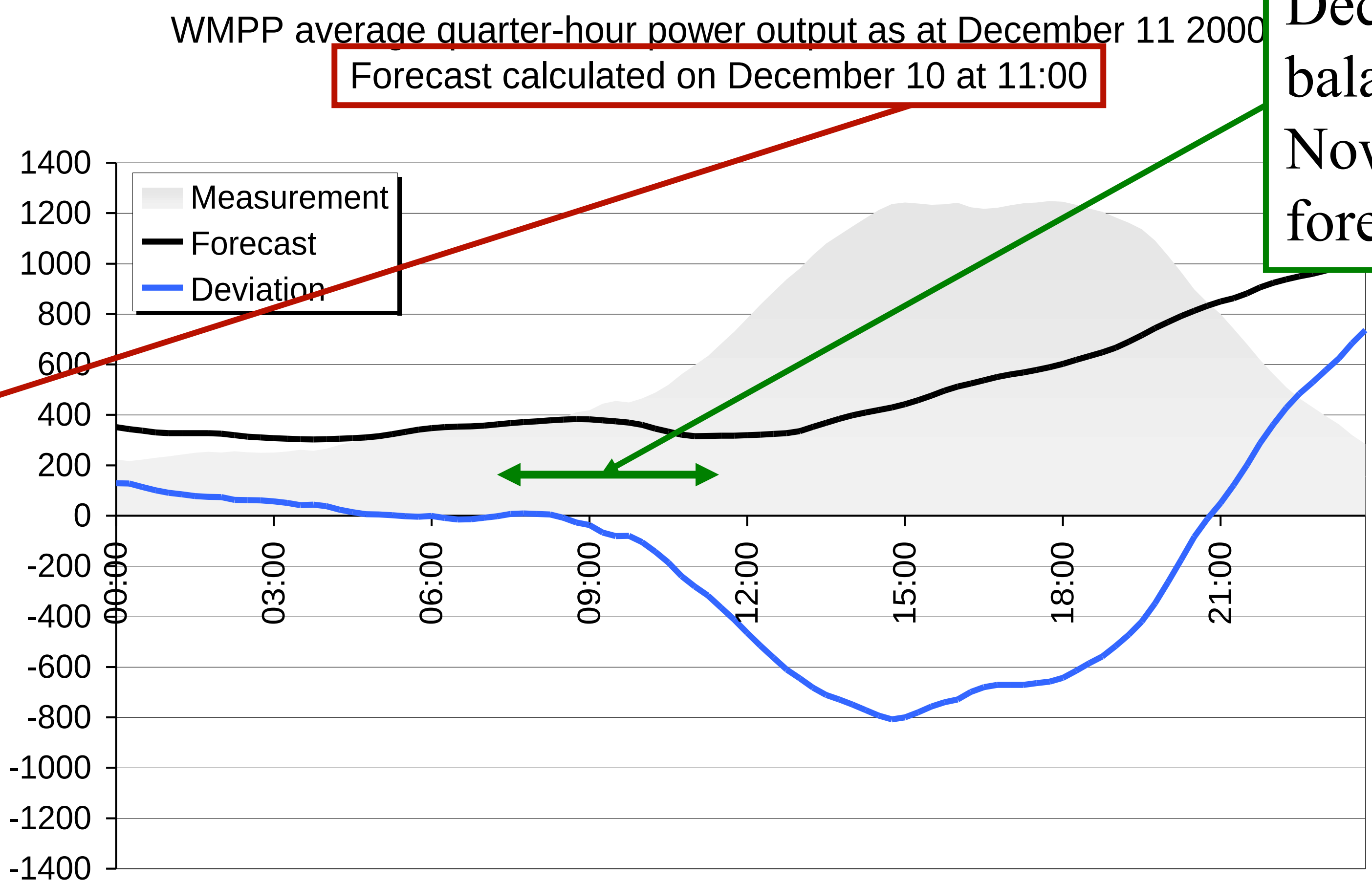
Pricing in power markets - 1



Pricing in power systems - 2



On up-dated forecasts



Decision for balancing: Now improved forecast!

Pricing in power systems - 3

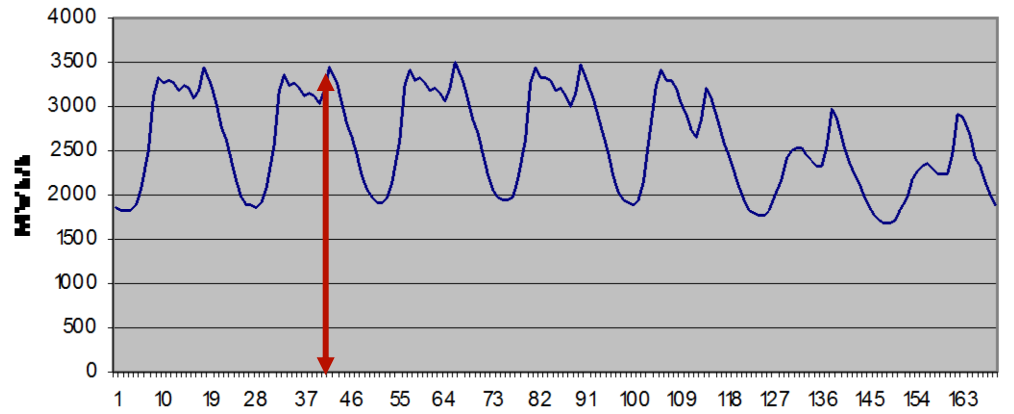
Challenges:

- **Bid planning** considering opportunities and uncertainties
- **Production planning** and operation considering opportunities and uncertainties
- **Estimation of** future **prices** in different systems
- **Stochastic optimization** approach needed
- **Intra hour modelling**

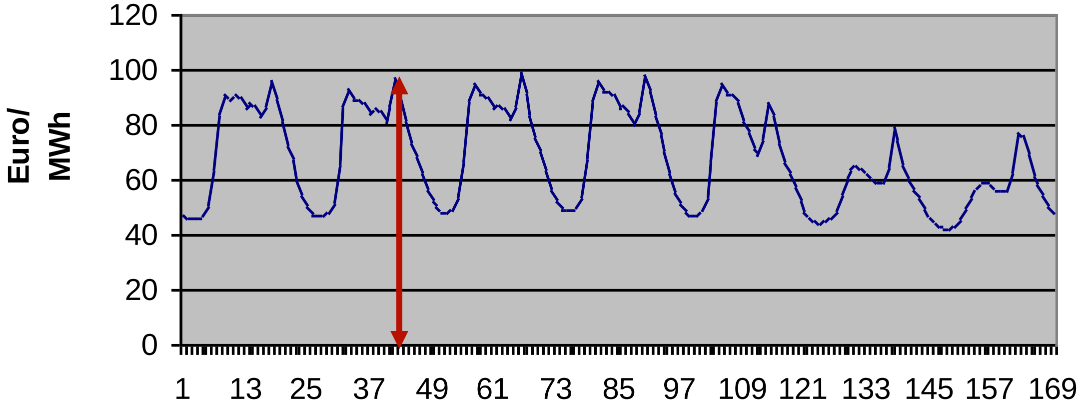
Pricing in power systems - 4

With an assumption of perfect competition:

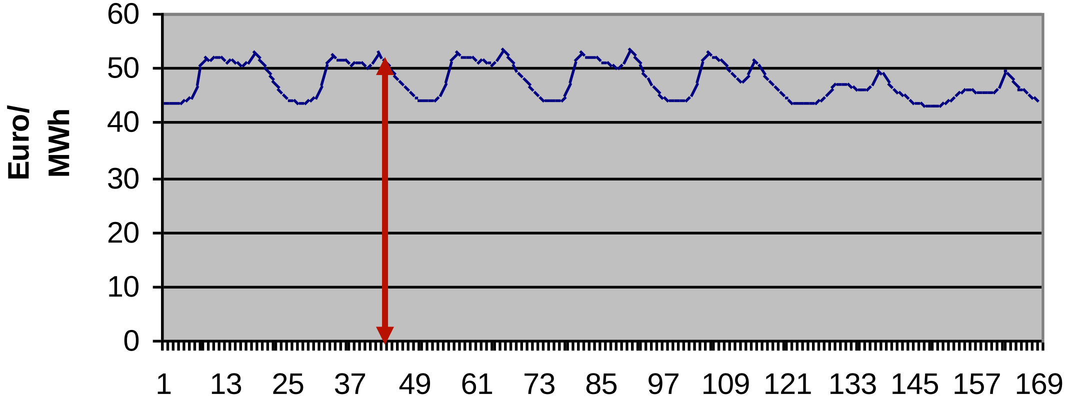
- Prices are based on production marginal costs
- Low costs units are used first
- Higher load ➔ higher prices:



Weekly demand



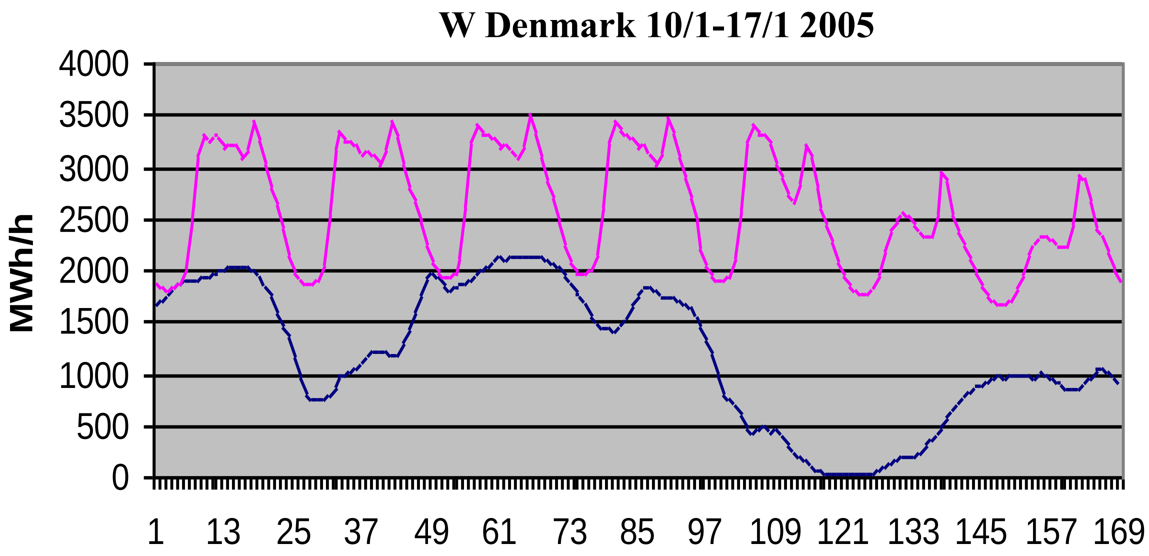
"Thermal pricing"



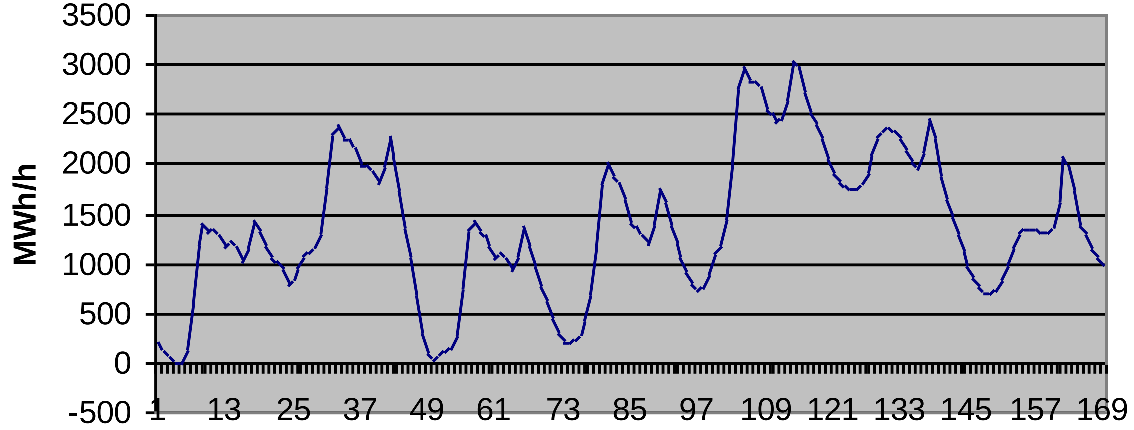
"Hydro pricing"

Pricing in presence of variable sources (e.g. wind)

- Wind power has a marginal cost ≈ zero
- The production level is depending on wind speed
- It is not easy to make good long term (hours) forecasts
- Other units have to cover the net load = demand - wind



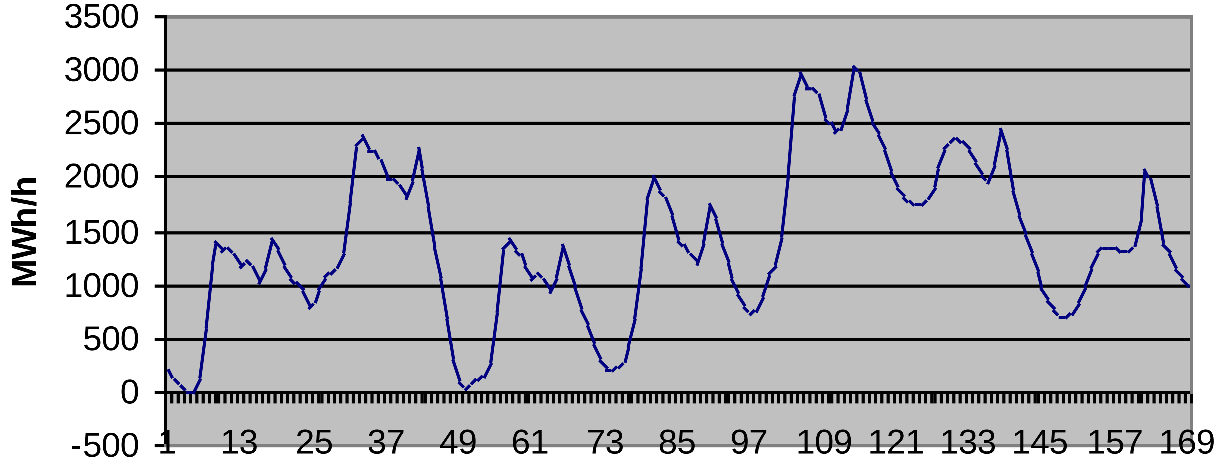
Weekly demand + wind



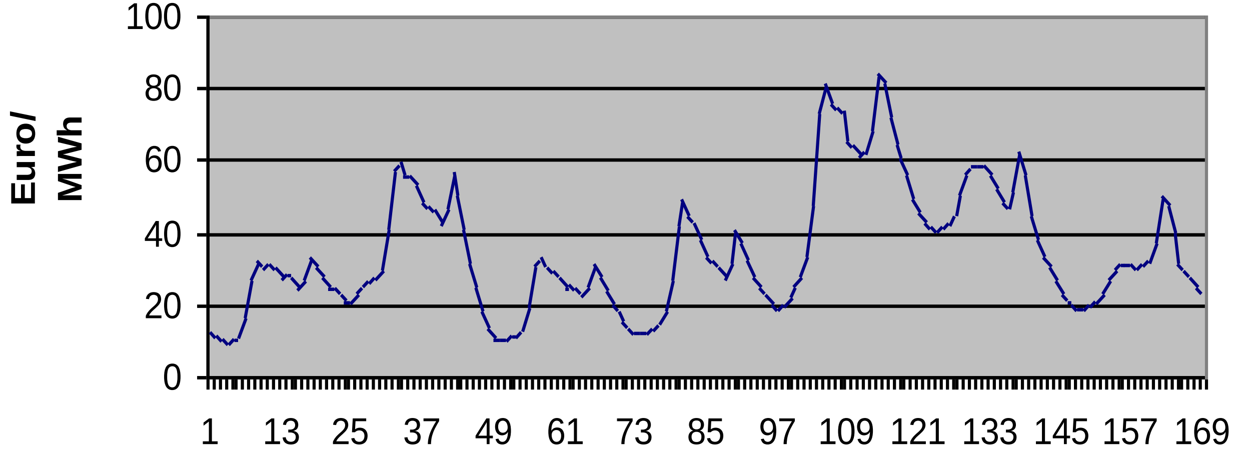
Weekly net demand

Pricing in presence of variable sources

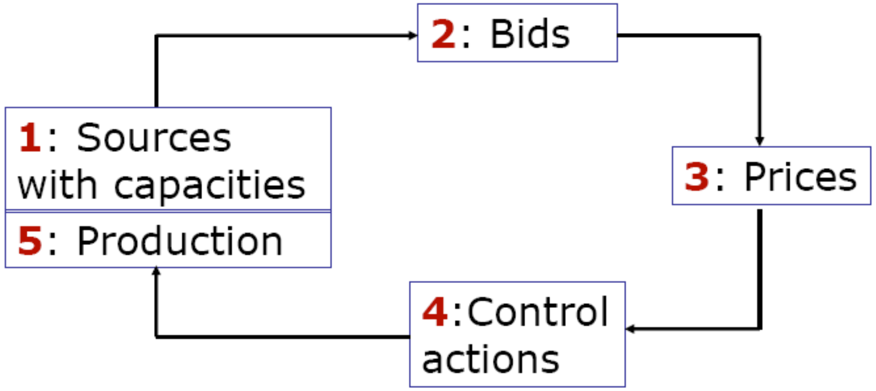
- Other units have to cover the net load = demand – wind
- The other units production is controlled by price!
- ➔ more volatile price
- **Note: This is independent of ”fixed price” etc**

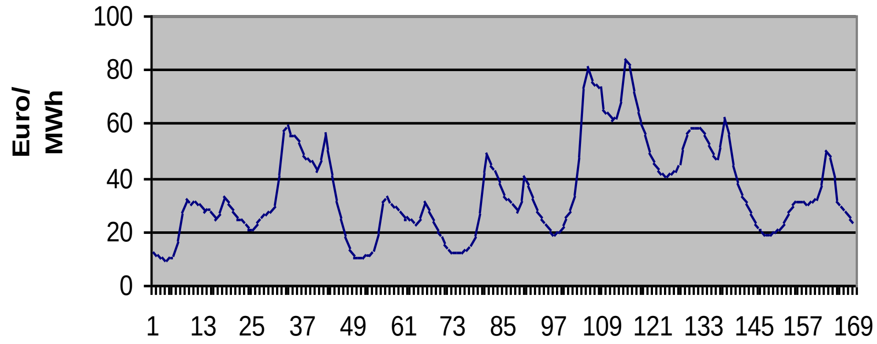


Weekly net demand



”Thermal pricing”





Some comments:

- Wind power forecasts are more uncertain ➔ larger volumes on shorter markets
- Wind power does NOT have a typical daily pattern ➔ No ”typical” pattern of prices either.
- ➔ One can not, e.g., count on ”load your electric car during the night”.

Impact on operation, inter-area trading and investments

Operation:

- Larger variation and larger uncertainties ➔ prices on day-ahead markets do not reflect marginal costs

Interarea trading:

- Large amounts of wind power in one area ➔ large interest to buy this in neighboring systems since marginal cost is low.

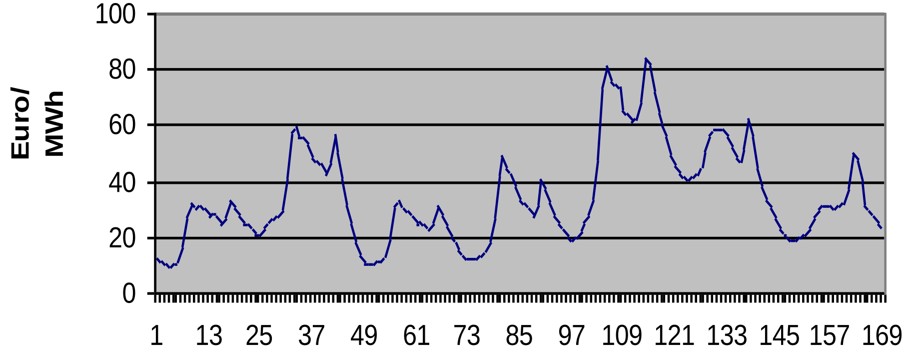
Investments:

- Also so-called ”base-plants” will have an economic value to be more flexible, since the power price can be below their marginal operation cost.

Solutions and competition

Assume a system with large price variation:

- ➔ Three types of ”business opportunities”



More trading with neighbors

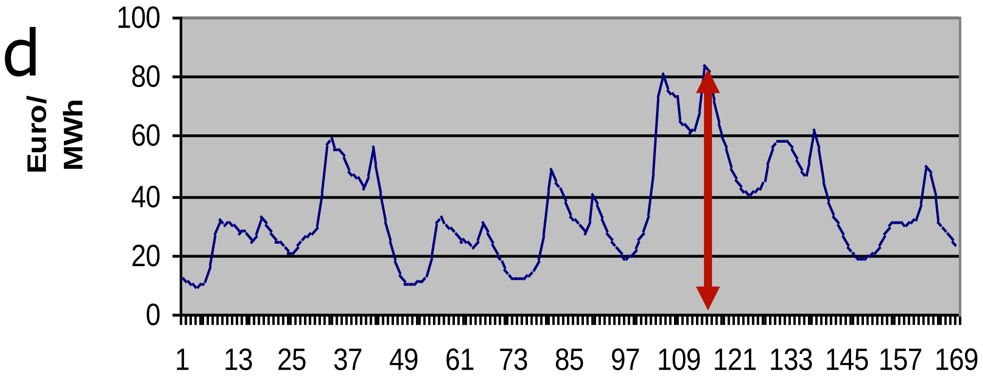
Demand side management

Flexible plants

- There is a competition between these methods.
- Much transmission reduces price changes ➔ less interest in DSM

Capacity challenge

- Who want to invest in rarely used units? With wind power the utilization time decreases
- If not we get ”capacity deficit”

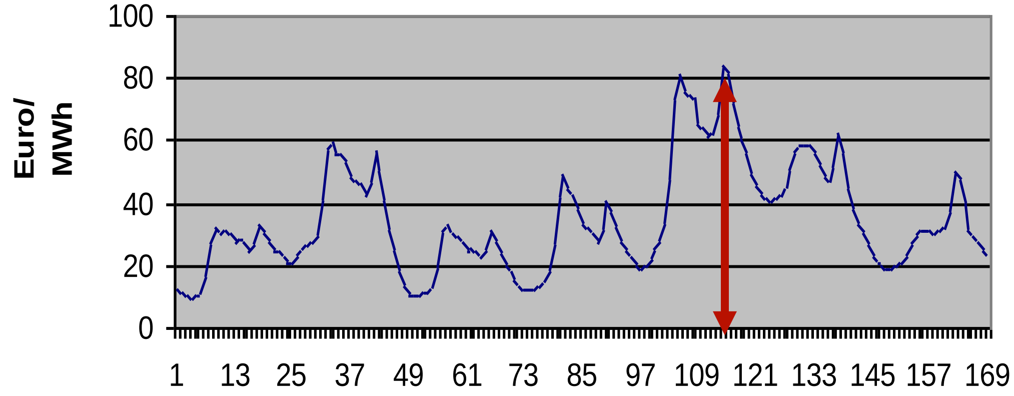


Deregulation

- **Before deregulation:** most system operators kept ”enough” reserves and ”extra” reserves with trading possibilities with other systems
- **”Good” deregulation:** open competition also cross border ➔ no double margins any longer ➔ increased LOLP

Capacity challenge

- Three important system parameters / variables



Maximum price

- Extreme prices for few hours can finance peak plants

System reliability

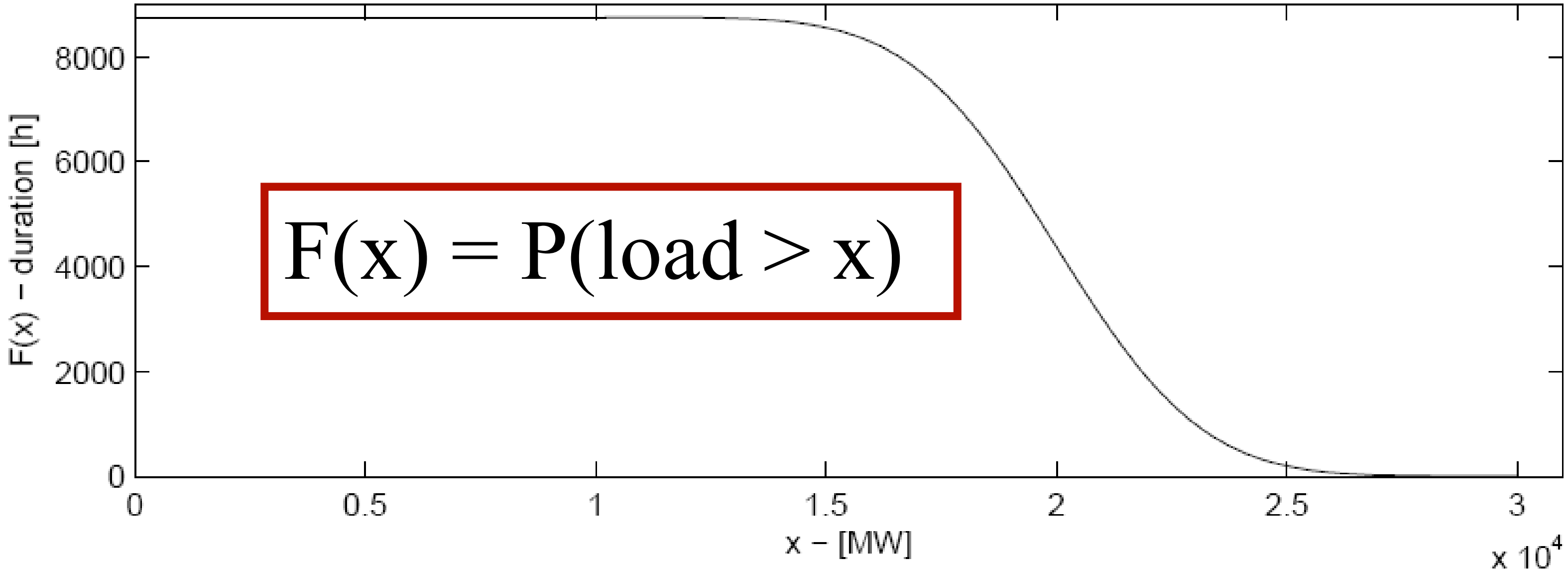
- Requirement of max LOLP

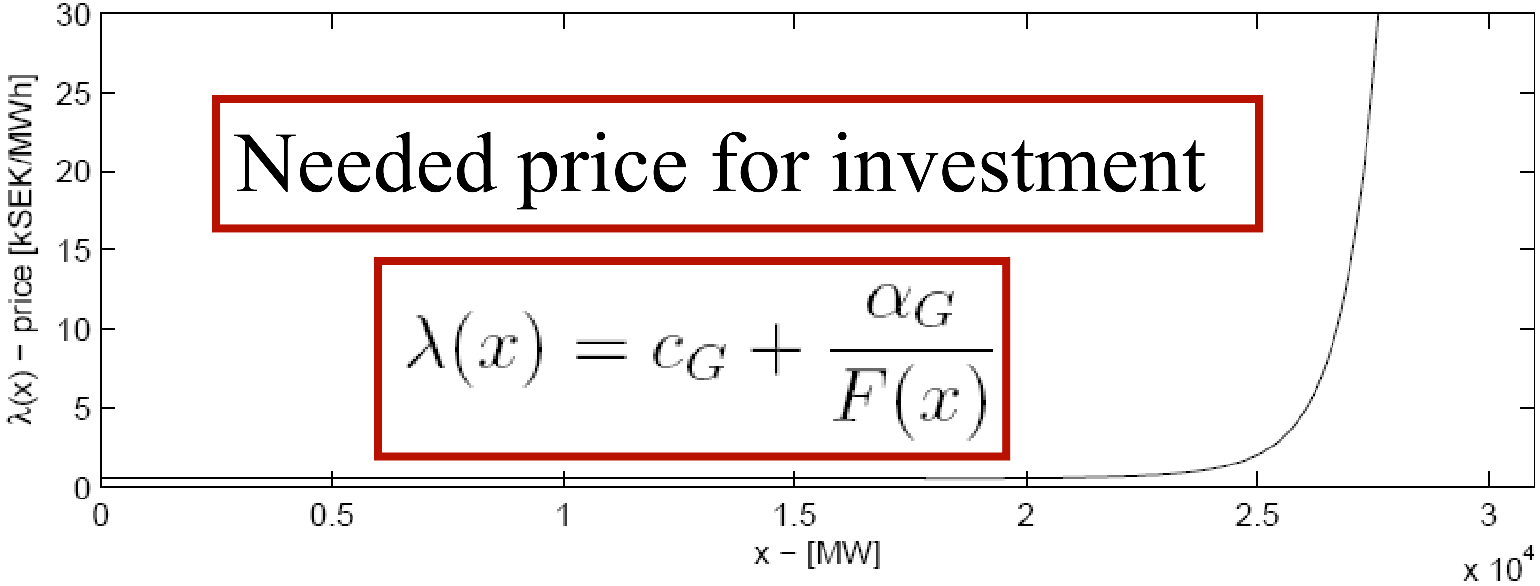
Subsidized plants

- MW of power plants not paid with market price

- One of these three can be calculated from the other two.
- **Comment**: Wind power capacity credit reduces the utilization time of the peak unit.

Concerning market interest to invest in “last” unit





The cost of a gas turbine is assumed to *aG* = 300 kSEK/MW, year and *cG* = 0.5 kSEK/MWh

Concerning market interest to invest in "last" unit - 4

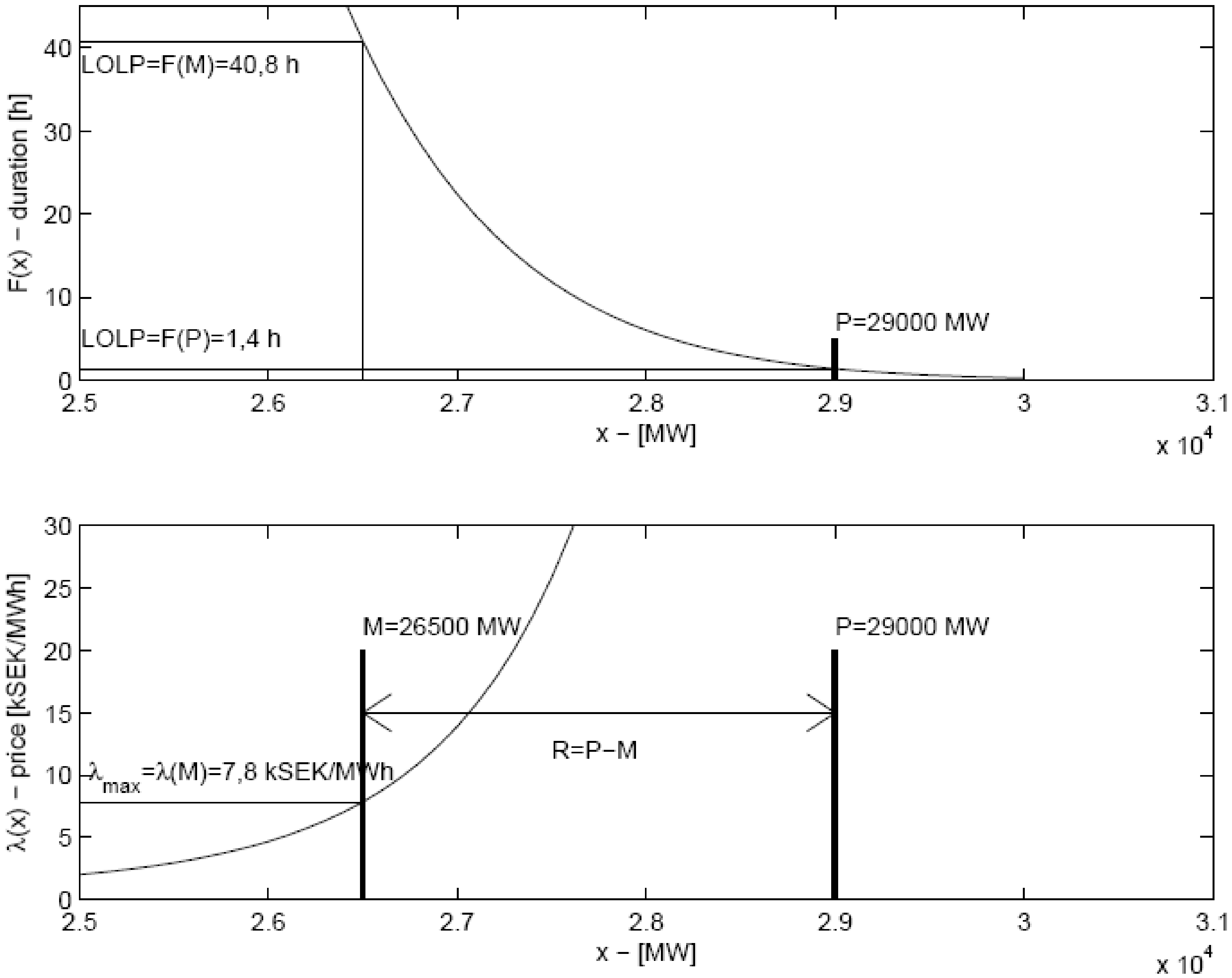
x - load level MW	$F(x)$ - duration h/year	$\lambda(x)$ - needed price kSEK/MWh
>25500	**121.7942**	**>2.9632**
>26000	**71.8104**	**>4.6777**
>26500	**40.8320**	**>7.8472**
>27000	**22.3829**	**>13.9131**
>27500	**11.8251**	**>25.8697**
>28000	**6.0193**	**>50.3394**
>28500	**2.9515**	**>102.1432**
>29000	**1.3938**	**>215.7403**
>29500	**0.6338**	**>473.8587**
>30000	**0.2774**	**>1081.815**

Concerning market interest to invest in “last” unit - 8

x - load level MW	$F(x)$ - duration h/year	$\lambda(x)$ - needed price kSEK/MWh
>25500	121.8	> 3.0
>26000	71.8	>4.7
>26500	40.8	>7.8
>27000	22.4	>13.9
>27500	11.8	>25.9
>28000	6.0	>50.3
>28500	3.0	>102.1
>29000	1.4	>215.7
>29500	0.6	>473.9
>30000	0.3	>1081.8

- Assume that the society considers that there are too large problems if one accepts a price larger than 7.8. If this is the case, then only 26500 MW will be installed since power stations with lower utilization time will not be profitable.
- B: If a higher price than 7.8 kSEK/MWh (λ_{max} = 7.8) is not accepted, then this implies that one have to subsidize $R = P - M$ = 29000 - 26500 = 2500 MW This means that λ_{max} and *LOLP* ➔ *R*.

Concerning market interest to invest in “last” unit - 9



Peak load resources in current Swedish market

- TSO purchases PLR maximum 2000 MW
- The power is bid into Nordpool spot
- The bid price = latest accepted bid at Nordpool
- Not used bids are moved to the regulating market.
- There is a maximum imbalance price of 5000 Euro/MWh

Summary

- More varible power ➔ higher price volatility
- The higher price volatility is needed since other power plants have to vary their production more
- This is independent of ”fixed price”, ”certificates” etc
- There is a true competition between transmission, DSM and flexible production.
- The capacity challenge increases with deregulation and with wind power capacity credit.

Stockholm Royal Seaport – *a future environmental city district and an international showcase*

Key Facts

- **Area: 236 hectares. Land owned by the City of Stockholm.**
- **Building start: 2010**
- **Completion: 2025**
- **Current construction: soil remediation, infrastructure**
- **First occupancy: 2012**
- **New apartments: 10,000**

Key Facts

- **New work spaces: 30,000**
- **Commercial areas: 600,000 sqm**
- **Energy target: 55 kWh sqm/year**
- **Distance to city centre: 2,1 miles**
- **Infrastructure: Biogas buses, city tram, metro, district heating, new lanes for pedestrians and cyclists etc.**

C40 CITIES CLIMATE LEADERSHIP GROUP

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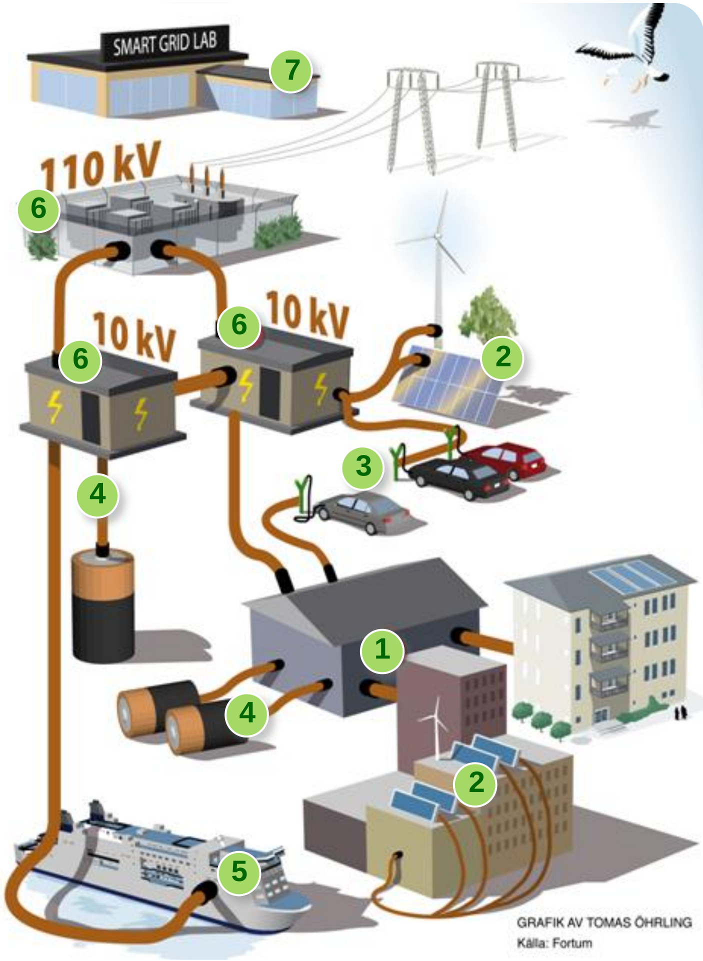
URBAN CHALLENGES SUSTAINABLE SOLUTIONS EUROCITIES 2009 STOCKHOLM 25-28 NOVEMBER

STOCKHOLM winner 2010 EUROPEAN GREEN CAPITAL

ABB

Large-scale R&D investments into sustainable electricity systems in an urban environment



1 **Active homes and demand control**
- Increased energy efficiency and peak levelling

2 **Dispersed local energy production**
- Integration of local energy production

3 **Use of electric vehicles and smart charging**
- An integrated infrastructure for charging electric vehicles

4 **Energy storage supporting customers and grid**
- Improved grid quality and levelling out of power peaks

5 **Smart and electrified port**
- Reduction of CO2 emissions with high voltage connections for the ships

6 **Smart grid stations**
- Improved operational safety through increased automation

7 **Centre for operations, research and follow-up**
- Operation, research and development as well as follow up of the smart grid