An Integrated Paradigm for the Management of Delivery Risk in Electricity Markets

From Batteries to Insurance and Beyond

2021 Project Status Update

EPRI: Robin B. Hytowitz, E. Ela, I. Krad
NREL: E. Spyrou (Project PI), M. Cai, Y. Liu, Y. Zhang
Johns Hopkins U.: B. Hobbs, H. Geman, Y. Ma
Packetized Energy: P. Hines, M. Almassalkhi

EPRI P39.16 Public Deliverable 3002023288

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This work was authored in part by the National Renewable Energy Laboratory, operated by Alliance for Sustainable Energy, LLC, for the U.S. Department of Energy (DOE) under Contract No. DE-AC36-08GO28308. Funding provided by U.S. Department of Energy Advanced Research Projects Agency–Energy (ARPA-E) under ARPA-E Award No. DE-AR001274 and Work Authorization No. 19/CJ000/07/08. The views expressed in the article do not necessarily represent the views of the DOE or the U.S. Government. The U.S. Government retains and the publisher, by accepting the article for publication, acknowledges that the U.S. Government retains a nonexclusive, paid-up, irrevocable, worldwide license to publish or reproduce the published form of this work, or allow others to do so, for U.S. Government purposes.

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Acknowledgments

This material is based upon work supported by ARPA-E Award No. DE-AR001274 and EPRI.

Electric Power Research Institute (EPRI) and the following organizations prepared this report:

Electric Power Research Institute
3420 Hillview Ave.
Palo Alto, CA 94304

Principal Investigators
R.B. Hytowitz
E. Ela

National Renewable Energy Laboratory
15013 Denver West Parkway
Golden, CO 80401

Principal Investigators
E. Spyrou
M. Cai

Johns Hopkins University
3400 North Charles Ave.
Baltimore, MD 21218

Principal Investigators
B. Hobbs
S. Tyagi

This report describes research sponsored by the Advanced Research Projects Agency, U.S. Department of Energy.

This publication is a corporate document that should be cited in the literature in the following manner:

An Integrated Paradigm for the Management of Delivery Risk in Electricity Markets: From Batteries to Insurance and Beyond. EPRI, Palo Alto, CA: 2021. 3002023288.

Abstract

In wholesale electricity markets today, flexibility from a limited number of distributed energy resources (DERs) is offered daily, and the value of flexibility is not yet recognized for economic hedging of delivery risk. Under a three-year project funded by the ARPA-E PERFORM program, a collaborative team is working towards developing an integrated risk management framework that will leverage flexibility from distributed and bulk resources to cost-effectively and reliably manage delivery risk of intermittent resources. Two concepts are at the core of the proposed integrated risk management framework:

(A) flexibility options, which are a novel type of options and enable wholesale electricity market participants to hedge uncertainty by buying flexibility.

(B) DER flexibility scores, which provide a way for utilities or aggregators to classify assets in groups with different likelihood of delivering contracted flexibility.

This report presentation will focus on the proposed ISO-product “flexibility options,” which is complementary to ramp and other products being introduced by ISOs/RTOs to manage net load uncertainties. Participating resources with imbalance risk can buy flexibility options to hedge their production, whereas grid-connected resources that can provide physical flexibility can offer flexibility options. We will present basics of the formulation for a day-ahead ISO market that matches buyers and sellers of this hedge in coordination with existing capabilities to schedule energy and ancillary services, and outline how their settlements mitigate the impact of imbalance risk.

Keywords

Electricity Markets, Imbalance Risk, Distributed Energy Resources, Flexibility, ISO, RTO, Hedging Options

Outline

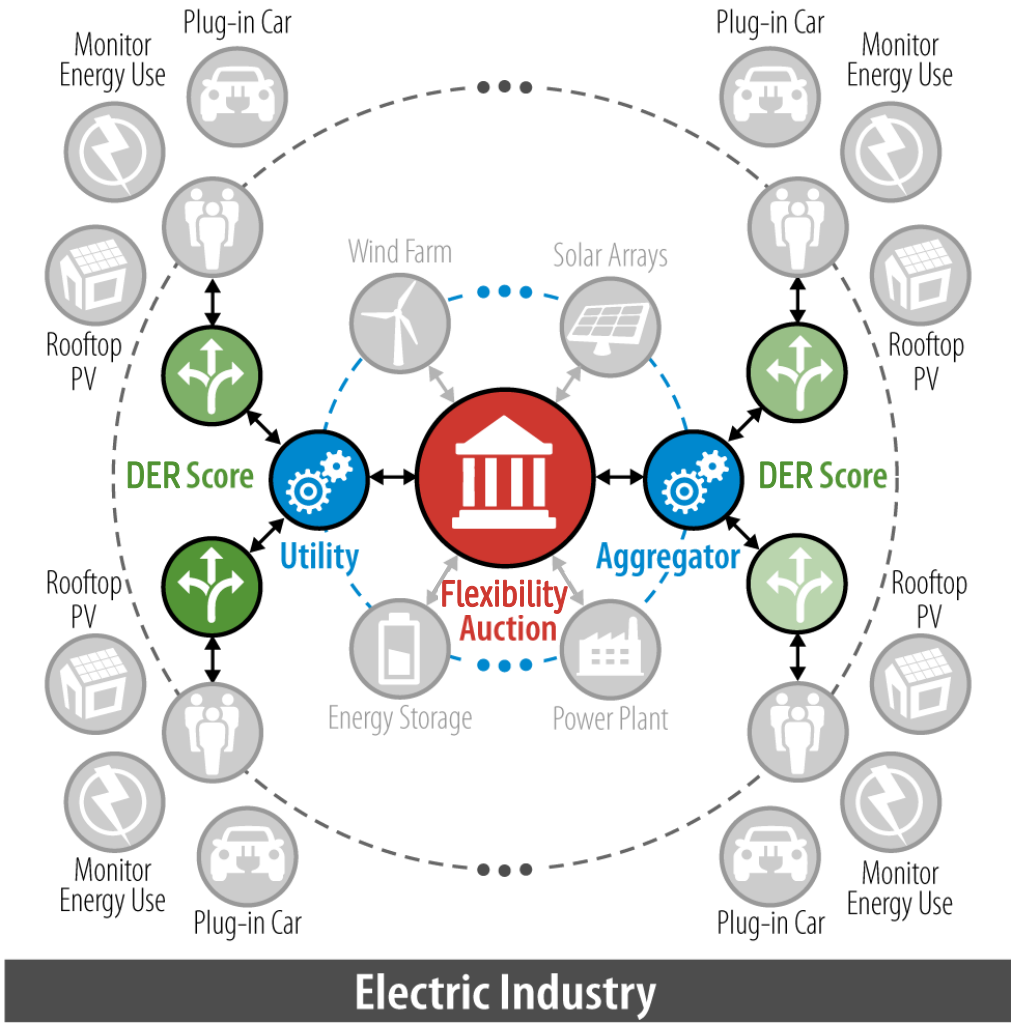
- PERFORM Project Overview
- NREL Team Project Overview
- Motivation for Flexibility Auction
- Flexibility Auction Details: Who, What, When
- Simulation Description and Initial Results
- Future Work for Years 2 and 3

ARPA-E PERFORM Program Overview

- Performance-based Energy Resource Feedback, Optimization, and Risk Management (PERFORM) is a program funded through the Department of Energy's Advanced Research Projects Agency-Energy
  - 12 teams have been awarded projects of various sizes beginning in 2020
  - EPRI is a sub-awardee of the National Renewable Energy Laboratory team
  - The program objective: "PERFORM seeks to develop innovative management systems that represent the relative delivery risk of each asset and balance the collective risk of all assets across the grid. A risk-driven paradigm allows operators to: (i) fully understand the true likelihood of maintaining a supply-demand balance and system reliability, (ii) optimally manage the system, and (iii) assess the true value of essential reliability services. This paradigm shift is critical for all power systems and is essential for grids with high levels of stochastic resources. Projects will propose methods to quantify and manage risk at the asset level and at the system level." Source: PERFORM site listed below
- Sources of general information
  - PERFORM site: https://arpa-e.energy.gov/technologies/programs/perform
  - NREL PERFORM site: https://arpa-e.energy.gov/technologies/projects/integrated-paradigm-management-delivery-risk-electricity-markets-batteries

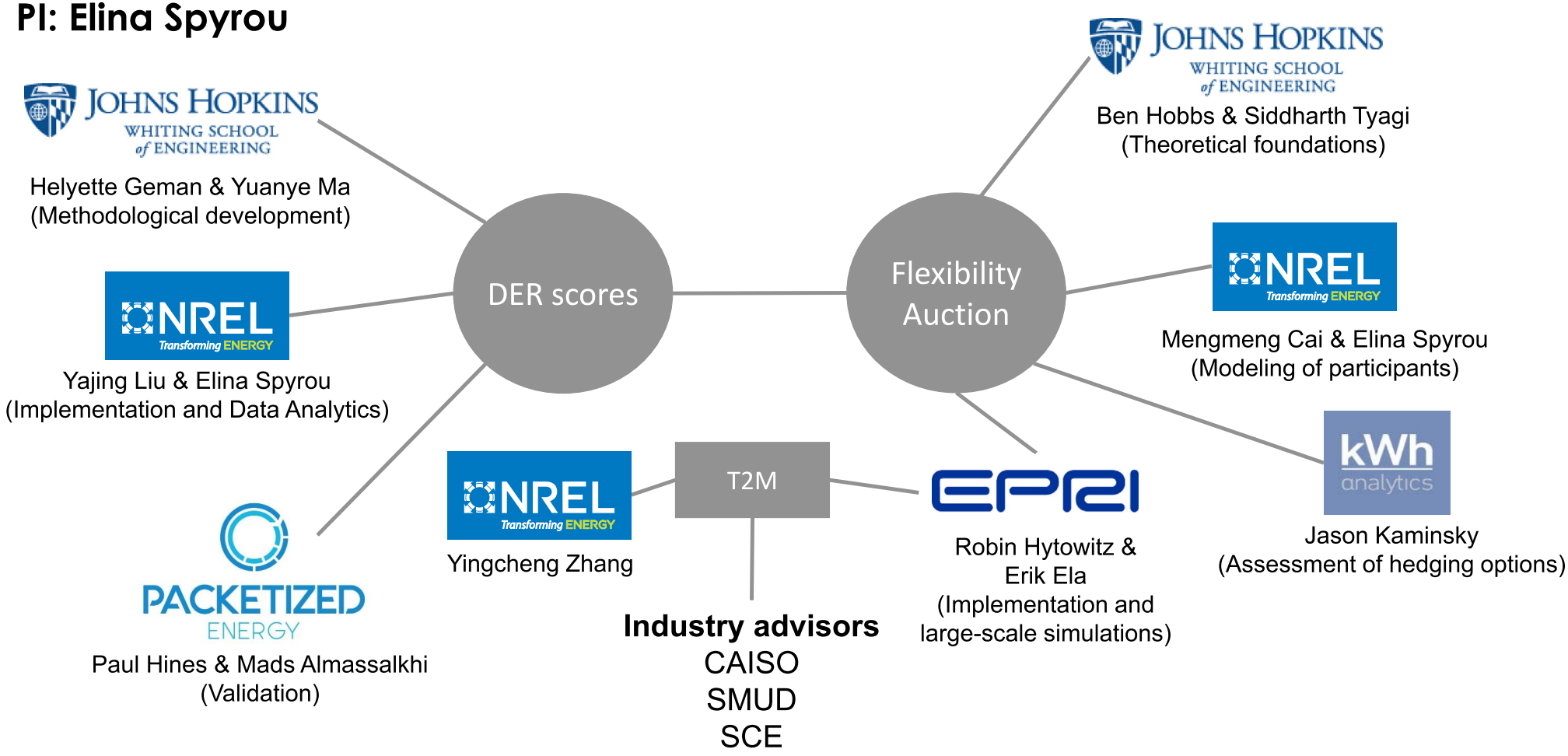
NREL Project Overview

- We aim to develop an operating paradigm that leverages flexibility from distributed and bulk resources to cost-effectively manage imbalance risk of intermittent resources and load.
- Aim achieved through two main tasks
  1. **DER scores** will characterize flexibility from DERs by magnitude and probability of delivery
  2. **Auction for physical flexibility** accessible by all market participants for economic hedging of their uncertain output. The proposed auction will create a demand for flexibility that extends beyond reliability and will strike a balance between procuring flexibility and mitigating the need for it.

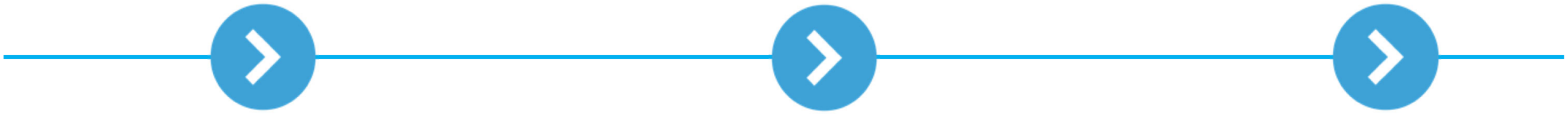


Project Team Overview

PI: Elina Spyrou



Flexibility Auction Overview



WHY management of imbalance risk in electricity markets is necessary?

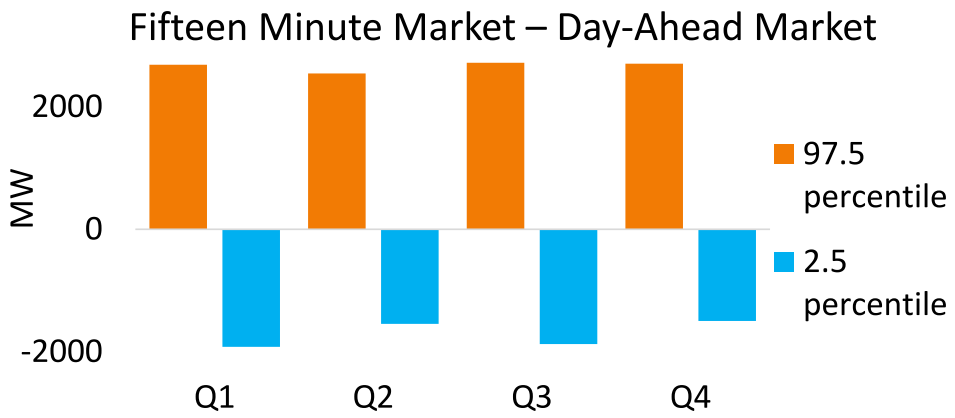
WHAT are the core concepts under the proposed paradigm?

HOW are we planning to estimate the value of the proposed paradigm?

WHY WHAT HOW

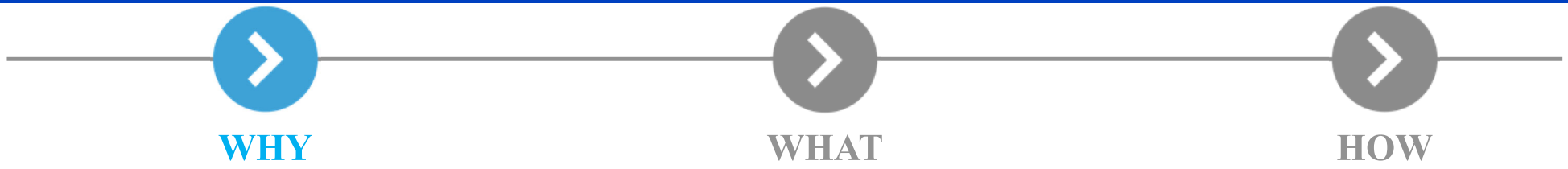
System operators ***and flexible resources*** must manage challenging imbalances

Net load imbalances at California ISO



Dataset: January 2017 to March 2019
Graph Adapted from M. Poage and D. Tretheway. 2019. "Day-Ahead Market Enhancements Stakeholder Working Group Meeting," August 13, 2019. CAISO.

- As an example of imbalances, the figure shows net load imbalance between CAISO's fifteen-minute real-time market and the day-ahead market
  - Imbalances in the 97.5% and the 2.5% can exceed 2000 MW
  - This could be equivalent to the loss of a large nuclear unit or the entire load in Sacramento Municipal Utility District



Operational flexibility is needed

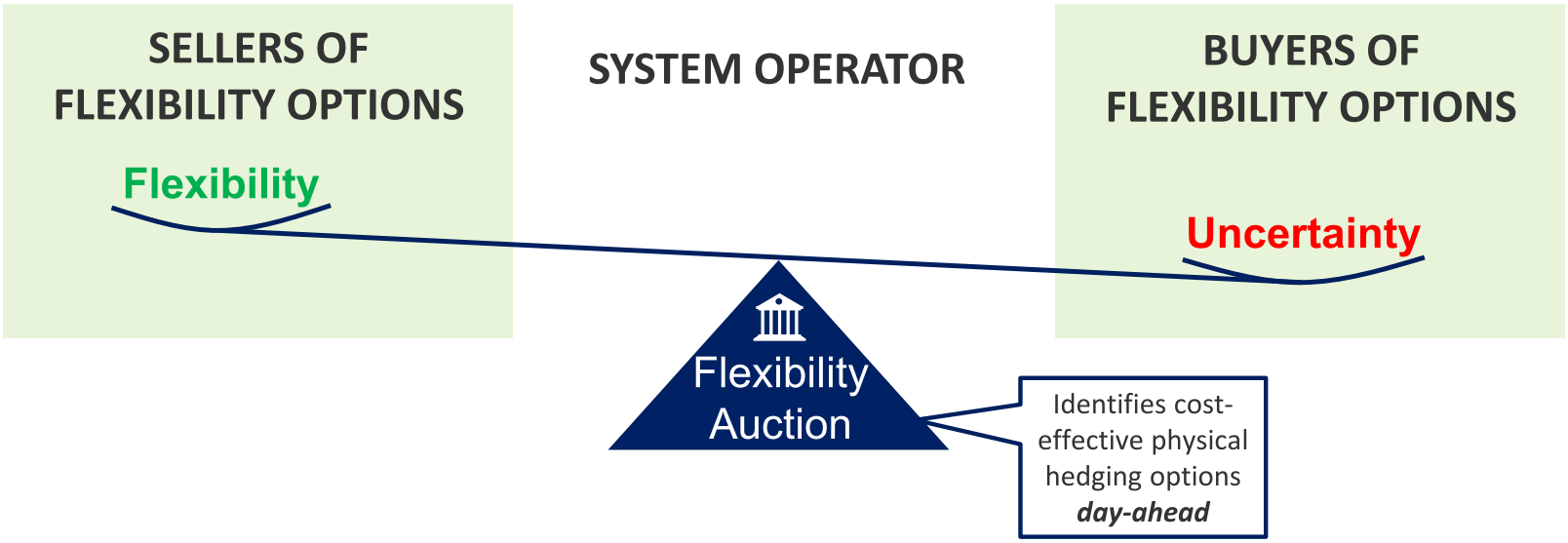
Electric generators → **Steeper** supply curves as lead time reduces

Electricity consumers → Usually **overlooked** because of perceived low dependability

- If imbalances are not hedged
  - High prices or possibly load shedding in real-time when not enough flexibility to counter imbalance
  - Over-procurement and increased commitment costs when more flexibility is procured than needed

WHY WHAT HOW

To manage imbalance risk, we propose a "flexibility auction" run by the system operator composed of sellers who have flexibility and buyers who have uncertain output



WHY

WHAT

HOW

SELLERS OF FLEXIBILITY OPTIONS

Flexibility

Power plants

Storage

Electric vehicles

Water heaters

Smart heating/cooling

Distributed Energy Resources Aggregation informed by ***DER scoring***

SYSTEM OPERATOR

Flexibility Auction

Identifies cost-effective physical hedging options ***day-ahead***

BUYERS OF FLEXIBILITY OPTIONS

Uncertainty

Solar plants

Wind plants

Electricity consumption

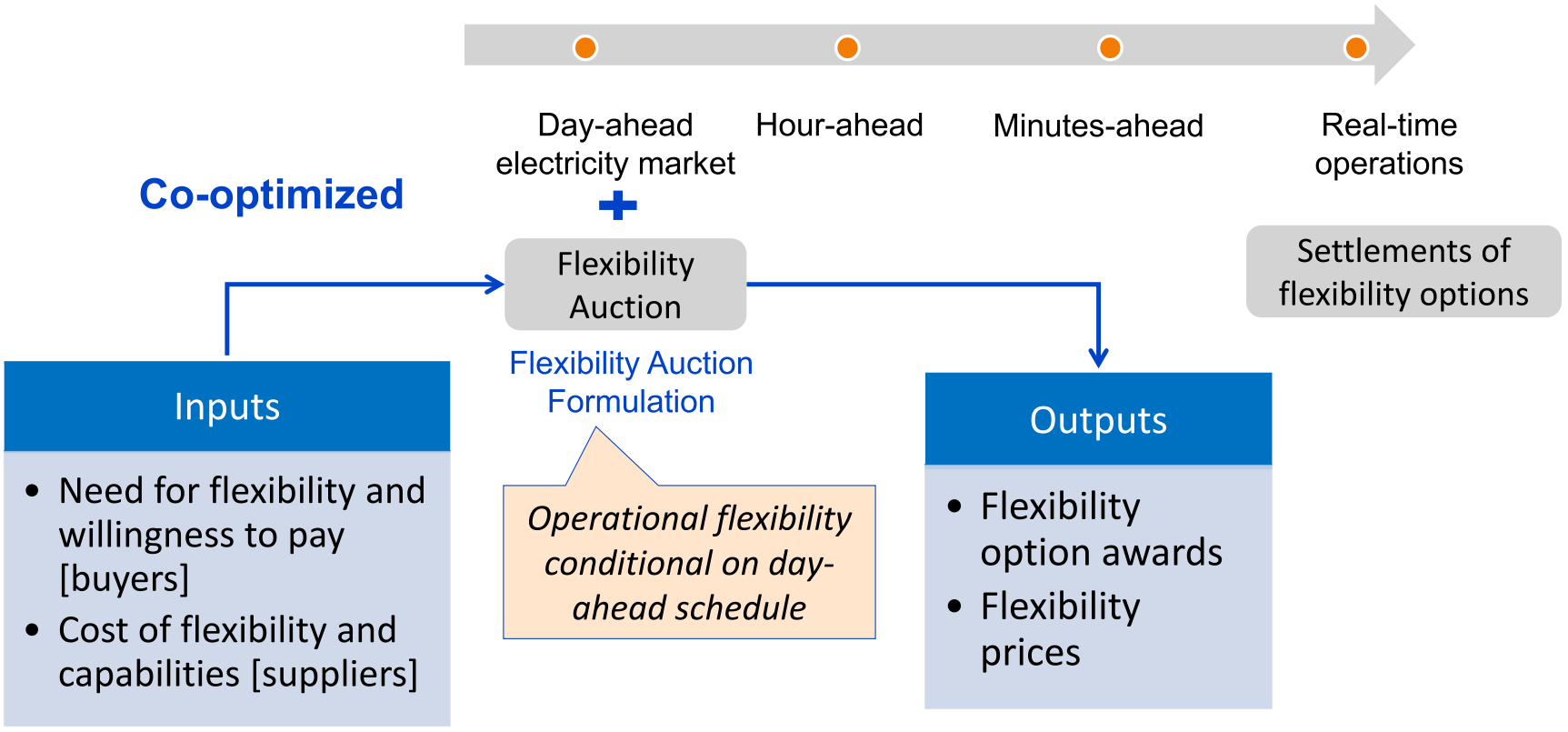
Probabilistic forecasts

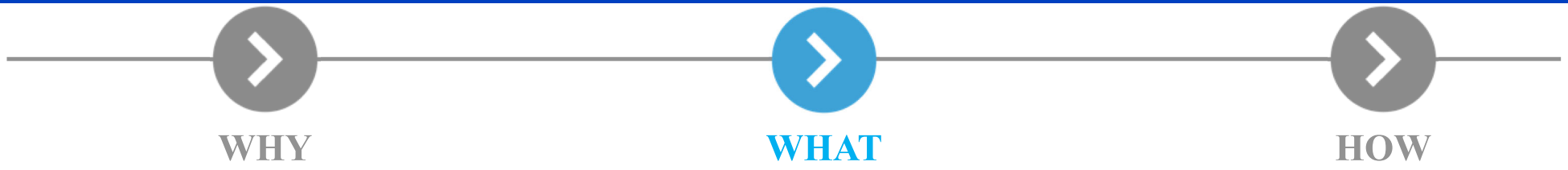
WHY

WHAT

HOW

The operator's perspective





Formulation

DA obj. function (existing)

Expected cost for flexibility deployment

$$\min_{\Xi} \sum_{i\in\Omega_G, t\in\Omega_T} \mathrm{C_{i,t}} \cdot \mathrm{p_{i,t}} + \cdots + \sum_{\mathrm{i}\in\Omega''_{\mathrm{G}}, \mathrm{t}\in\Omega_{\mathrm{T}}} \left(\sum_{\mathrm{r}\in\Omega_{\mathrm{R,t}}} \left({}^{\uparrow}\Pi_{\mathrm{r,t}} \cdot C^{\uparrow}_{i,t} \cdot {}^{\uparrow}\mathrm{hs_{i,r,t}} \right) - \sum_{\mathrm{r}\in\Omega_{\mathrm{R,t}}} \left({}^{\downarrow}\Pi_{\mathrm{r,t}} \cdot C^{\downarrow}_{i,t} \cdot {}^{\downarrow}\mathrm{hs_{i,r,t}} \right) \right) + \sum_{i,s,t} \mathrm{y}_{i,s,t} \cdot \gamma$$

$$+ \sum_{\mathrm{i}\in\Omega''_{\mathrm{G}}, \mathrm{t}\in\Omega_{\mathrm{T}}} \left(\sum_{\mathrm{r}\in\Omega_{\mathrm{R,t}}} \left({}^{\uparrow}CAP_{i,r,t} \cdot {}^{\uparrow}\mathrm{s\_fa_{i,r,t}} \right) \right)$$

Willingness to pay when deficit

Contact Robin (rhytowitz@epri.com) for more information and full formulation

Flexibility supply

$$p_{i,t} + \sum_{r\in\Omega_{R,t}} {}^{\uparrow}hs_{i,r,t} \le P^{max}_{i,t} \cdot u_{i,t} + min(P^{max}_{i,t}, RR_i) \cdot uf_{i,,t}$$

$$p_{i,t} - \sum_{r\in\Omega_{R,t}} {}^{\downarrow}hs_{i,r,t} \ge P^{min}_{i,t} \cdot u_{i,t}$$

+ramping constraints
+ constraints for fast-start flexibility up and down

Flexibility demand

$(3 \cdot N_i \cdot N_s \cdot N_T$ constraints)

$$\mathrm{p_{i,t}} - \sum_{\substack{\mathrm{r}=\{\mathrm{s},\ldots,|\Omega_{\mathrm{S,t}}|-1\} \\ \mathrm{s}\neq|\Omega_{\mathrm{S,t}}|}} {}^{\uparrow}\mathrm{hd_{i,r,t}} + \sum_{\substack{\mathrm{r}=\{1,\ldots,\mathrm{s}-1\} \\ \mathrm{s}\neq 1}} {}^{\downarrow}\mathrm{hd_{i,r,t}} - {}^{\uparrow}\mathrm{s\_fa_{i,r,t}} \le \mathrm{P_{i,s,t}}$$

$$\mathrm{y_{i,s,t}} \ge \left|\mathrm{p_{i,t}} - \mathrm{P_{i,s,t}}\right|$$

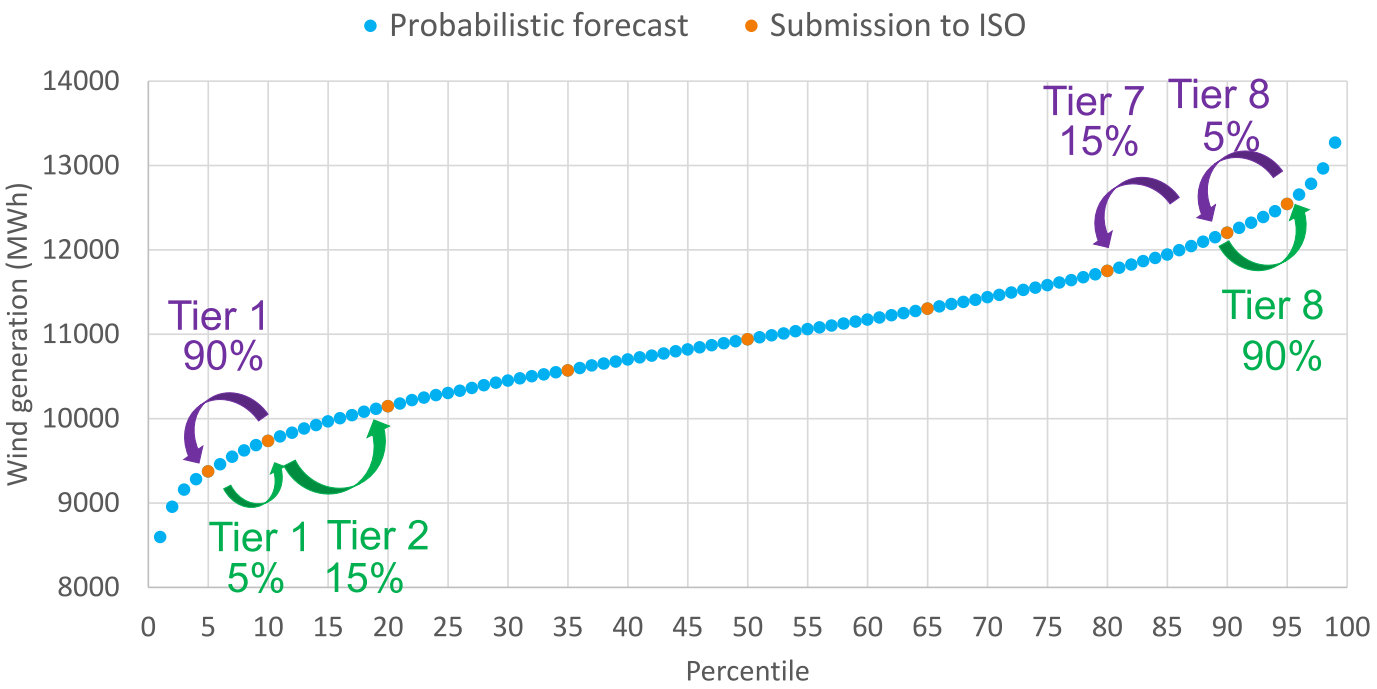
$$\sum_{\substack{r=\{1,\ldots,s-1\} \\ s\neq 1}} {}^{\downarrow}hd_{i,r,t} + \sum_{\substack{r=\{s,\ldots,|\Omega_{S,t}|-1\} \\ s\neq|\Omega_{S,t}|}} {}^{\uparrow}hd_{i,r,t} \le y_{i,s,t}$$

Need for flexibility

Limit on flexibility contracts

WHY WHAT HOW

The buyer's perspective: Offers

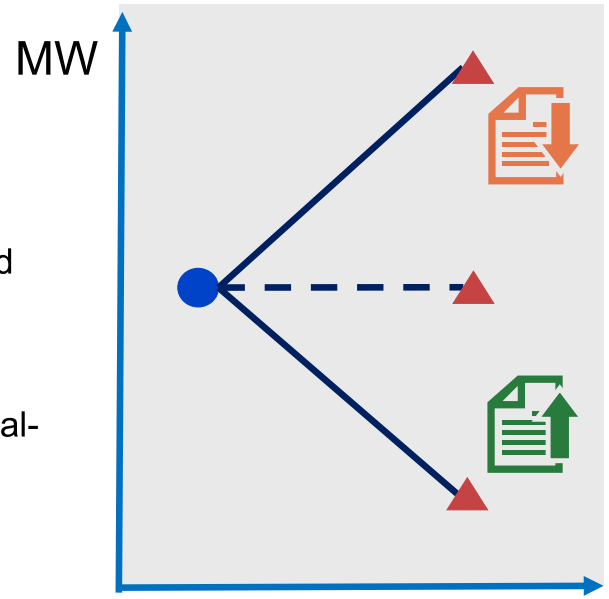


Upward flexibility

Downward flexibility

- ISO chooses which percentiles the participant can submit (orange points on the x-axis)
- Buyers of flexibility provide outputs at different percentiles and willingness to pay.

The buyer's perspective: Day-Ahead



Pay for the "downward" option to sell

$\max(0, \min(\text{Downward option}, \text{RT available} - \text{DA award})$

At $\max(\text{RT price}, \text{strike price})$

Get paid for day-ahead energy

Pay for the "upward" option to buy

$\max(0, \min(\text{DA award} - \text{RT available}, \text{Upward option}))$

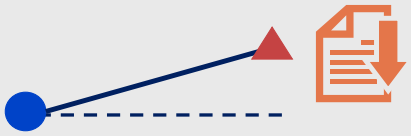
At $\min(\text{RT price}, \text{strike price})$

WHY WHAT HOW

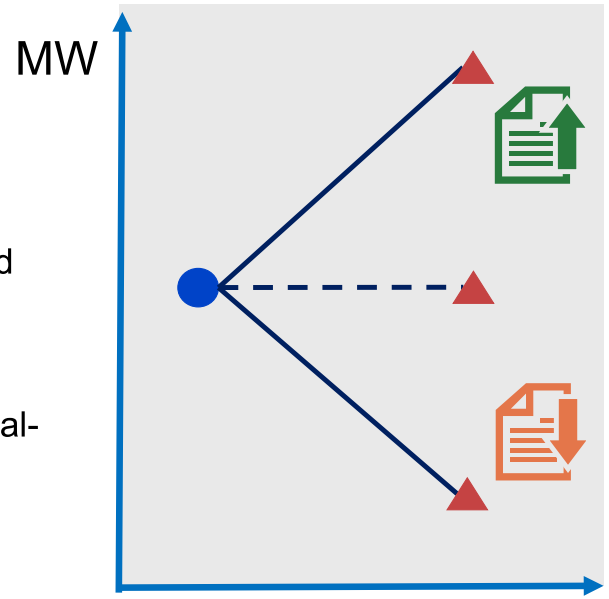
The buyer's perspective: Real-Time

- Day-ahead energy award
- Forecasted real-time physical availability

Which option can the buyer exercise?

Negative imbalance	Positive imbalance	No imbalance
		
Upward option	Downward option	None
Which price spread the buyer receives?	$\max(0, \text{RT price} - \text{strike price})$	$\max(0, \text{strike price} - \text{RT price})$	N/A

The seller's perspective: Day-Ahead



Get paid the expected real-time foregone profit margin to increase production at *own* strike price

Get paid for day-ahead energy

Get paid the expected real-time foregone profit margin to reduce production at *own* strike price

WHY WHAT HOW

The seller's perspective: Real-Time

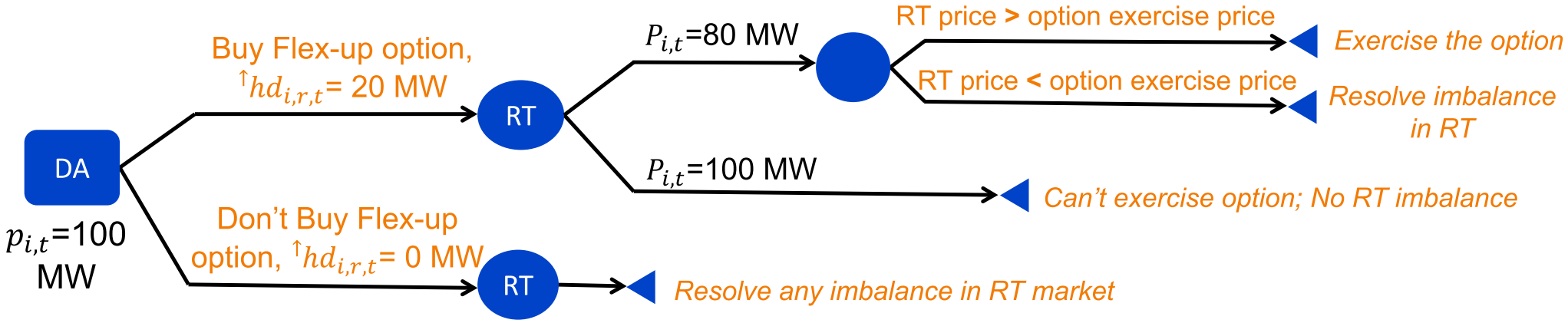
Day-ahead energy award

Which suppliers are called?

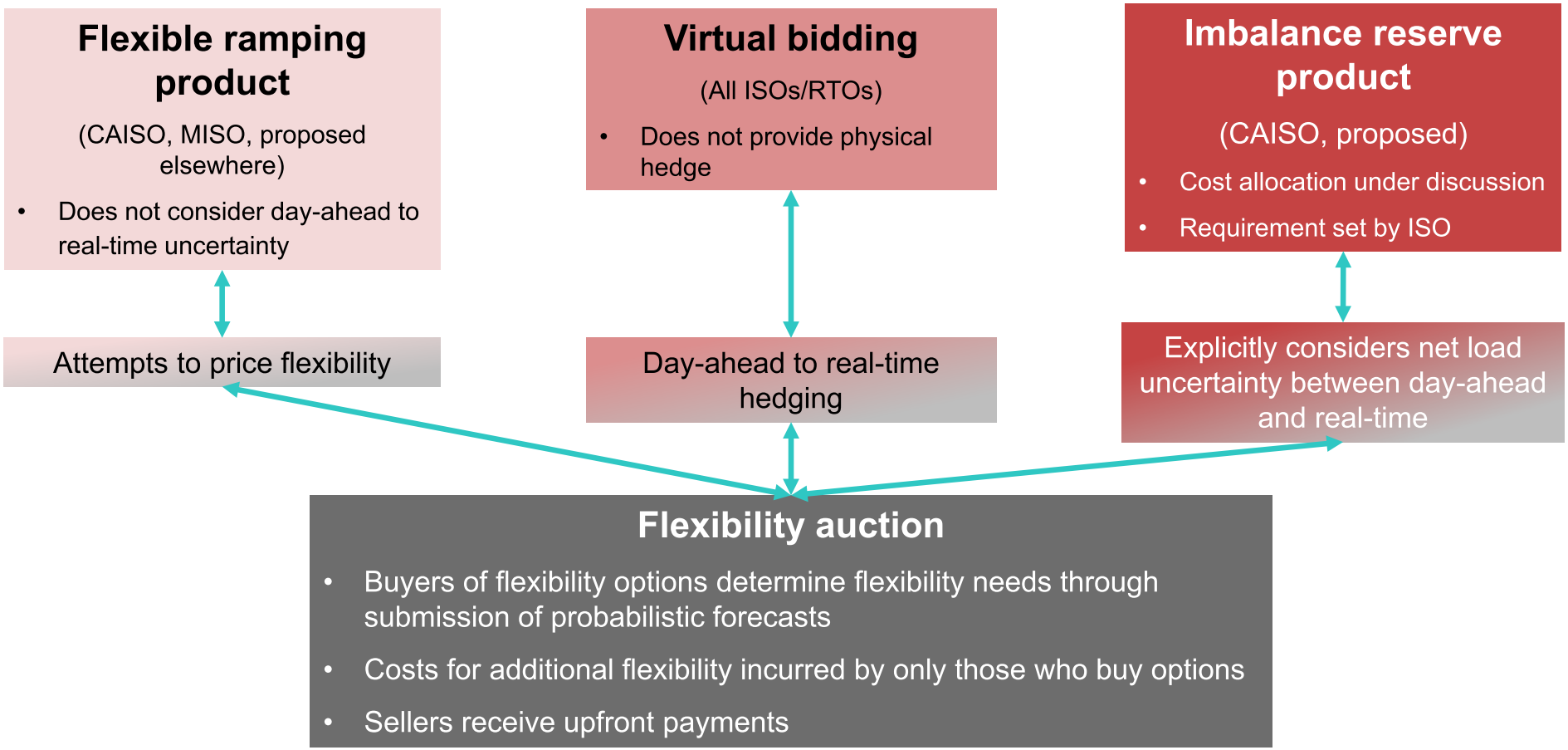
System-wide negative imbalance	System-wide positive imbalance	No imbalance or imbalance not caused by flexibility buyers
 Upward option	 Downward option	None
Supplier pays price spread	$\max(0, \text{RT price} - \text{own strike price})$	$\max(0, \text{own strike price} - \text{RT price})$	N/A

Example for flex-buyer's decision tree: Flex-*up* (case of two scenarios/one tier)

- Two generation scenarios, with equal probabilities 80 MW or 100 MW 
- DA clearing results in: $p_{i,t}$=100 MW; $^{\uparrow}hd_{i,r,t}$= 20 MW (Flex-up option)
- Decision tree representation: decision node DA; chance node RT; RT outcome



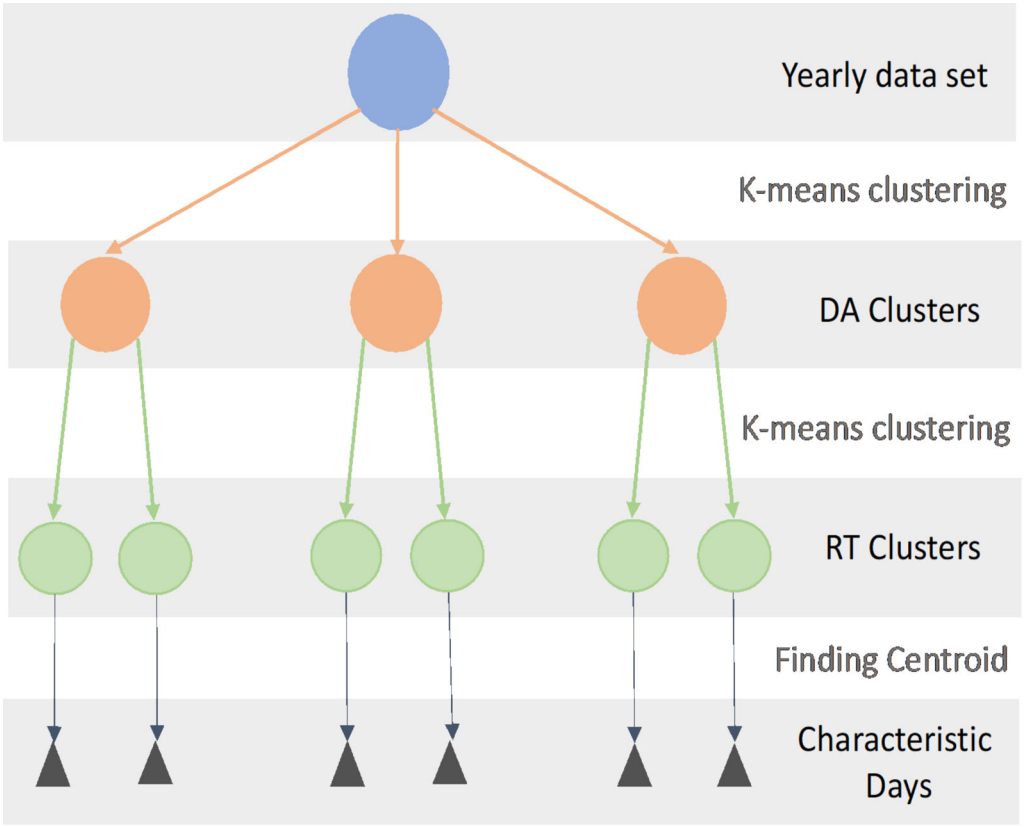
How does the Flexibility Auction compare to:



Experimental Simulation Setup

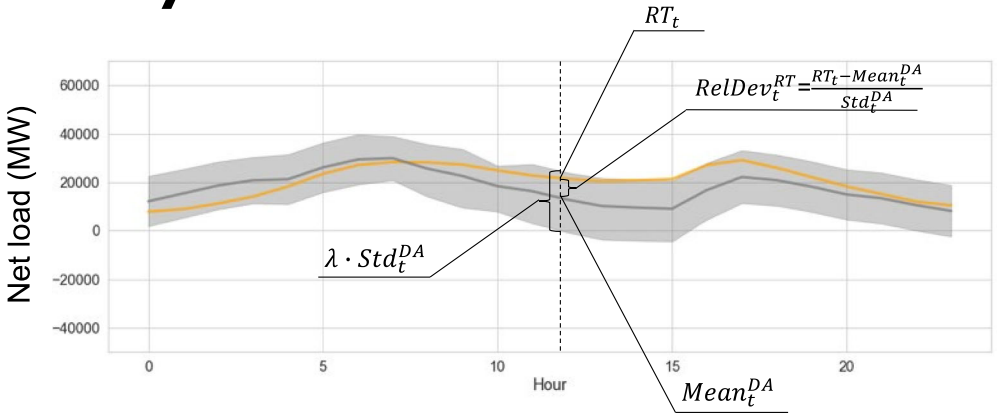
- Simulations using market modeling tool FESTIV (see next slide)
  - Synthetic network of ERCOT (7k buses) provided by PERFORM Data Teams: Texas A&M and U. Wisconsin Madison
    - https://electricgrids.engr.tamu.edu/electric-grid-test-cases/datasets-for-arpa-e-perform-program/
  - Generator data based on EIA and ERCOT published data (700+ generators) provided by PERFORM Data Teams above with additional verification from project team
  - Renewable and load forecasts and actuals provided by NREL data team
    - For the first year of the project, characteristic days are chosen
    - https://github.com/PERFORM-Forecasts/documentation

Characteristic Day Selection Methodology



- Two-step procedure:
  - DA-clustering concerns the procurement of flexibility options day ahead. It purely relies on features associated with the day-ahead probabilistic forecast.
  - RT clustering concerns the activation of flexibility options in real-time. It relies on features capturing the relative position of real-time realization with respect to the day-ahead probabilistic forecast.
- K-means clustering:
  - In both steps, K-means clustering is performed where the features selected in each step are standardized by removing the mean and scaling based on the maximum value the features take over the entire year.
- Locating characteristic days:
  - Characteristic days are selected by identifying days closest to the cluster centroid of each cluster.

Characteristic Day Feature Selection



Key time series relevant to the PERFROM DA probabilistic forecast & RT realization dataset

Set of characteristic days needed because simulations are computationally expensive

- First year of the project: six days chosen using criteria of previous slides and also shown here (right)
- Coming years: thirty-six and seventy-two days using additional criteria

DA features

$$Mean_{ave}^{DA} = \frac{\sum_{t=1}^{24} Mean_t^{DA}}{24}$$

Expectation of the energy demand

$$Std_{ave}^{DA} = \frac{\sum_{t=1}^{24} Std_t^{DA}}{24}$$

Proxy for the expectation of the flexibility needs

RT features

$$RelDev_{ave}^{RT} = \frac{\sum_{t=1}^{24} RelDev_t^{RT}}{24}$$

Averaged deviation

$$RelDev_{std}^{RT} = \sqrt[2]{\frac{\sum_{t=1}^{24}(RelDev_t^{RT} - RelDev_{ave}^{RT})^2}{24}}$$

Intra-day variation of the deviations

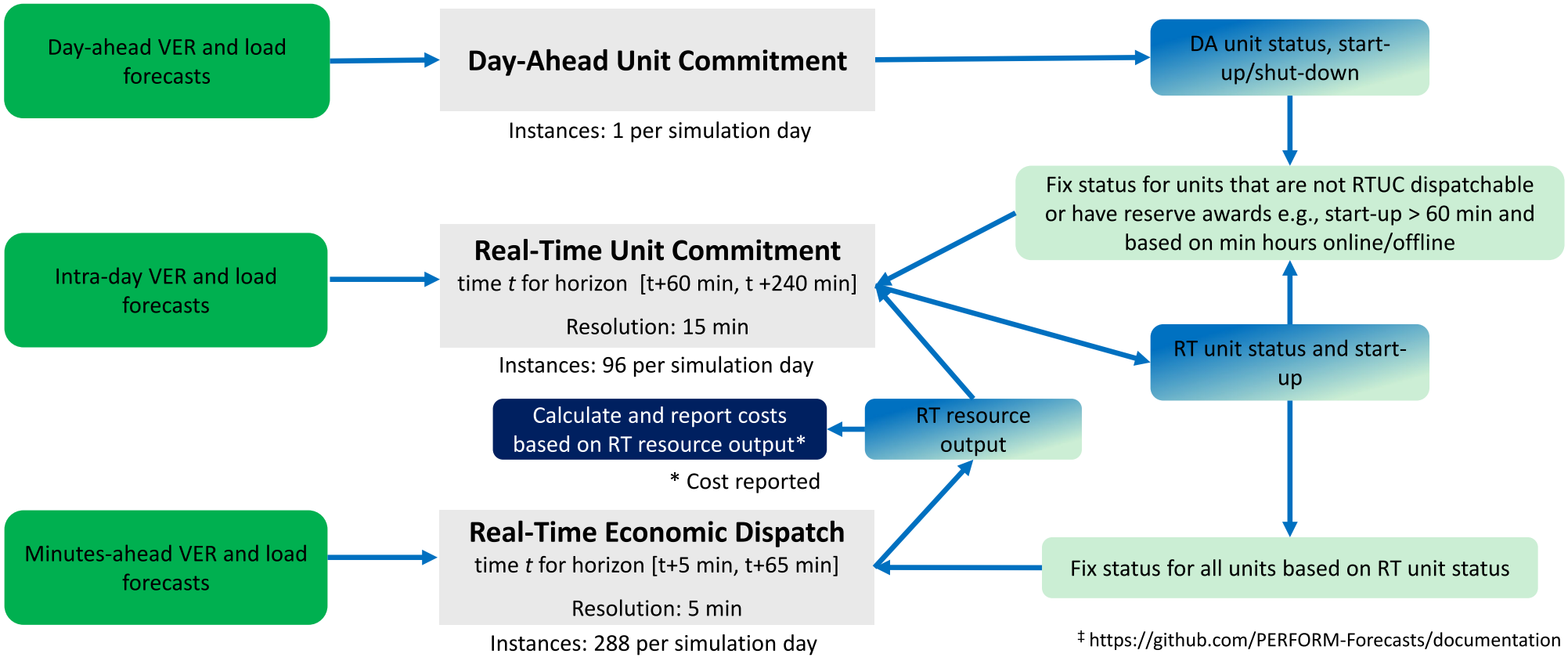
$$(RelDev_t^{RT} = \frac{RT_t - Mean_t^{DA}}{Std_t^{DA}})$$

HOW

FESTIV flow diagram

FESTIV: Flexible Energy Scheduling Tool for Integrating Variable Generation
https://www.nrel.gov/grid/festiv-model.html

Input Data ‡ | GAMS Outputs/Subsequent Inputs
GAMS optimization modules | MATLAB routines for rules
Reported metrics

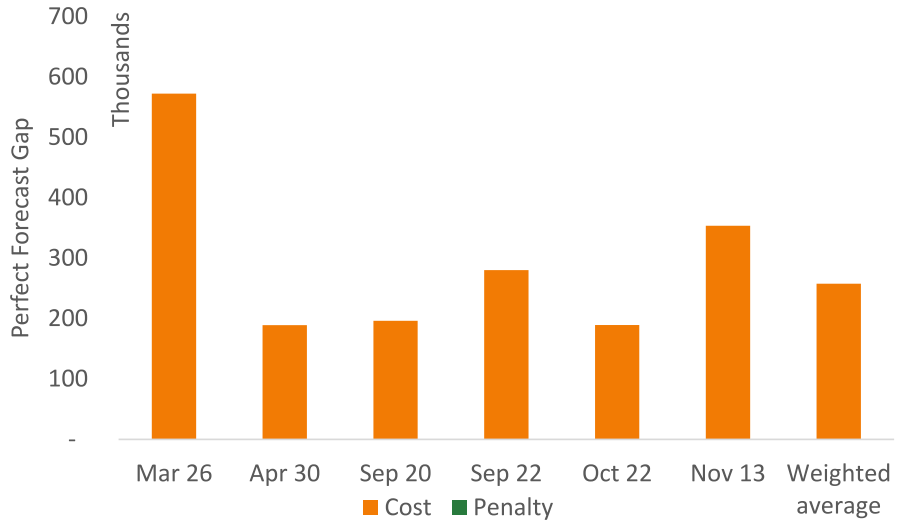


‡ https://github.com/PERFORM-Forecasts/documentation

WHY WHAT HOW

- **Flexibility Auction compared against other cases / counterfactuals**
  - Perfect forecast
  - Imperfect forecast (current business as usual)
  - Additional reserve product (CAISO's imbalance reserve proposal)
- **Comparison of prefect forecast case and imperfect forecast case showed**
  - Perfect forecast gap is 1.03%
  - Low gap possible due to increased flexibility for input data
  - No load shedding

Preliminary Results



WHY

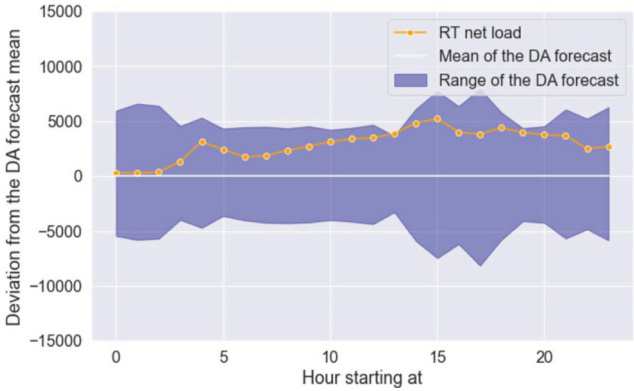
WHAT

HOW

- **Simulation results are initial, intended to show proof of modeling implementation**
  - Generator data is being updated
  - Refinement and expansion of choice of characteristic days
- **Initial Flexibility Auction results show:**
  - Days with wide sustained forecast error are more challenging
  - The further the realization from the median in the upward direction, the higher the benefits from the FA
  - Down direction leads to additional questions, e.g., should unit decommitment count towards flexibility down?

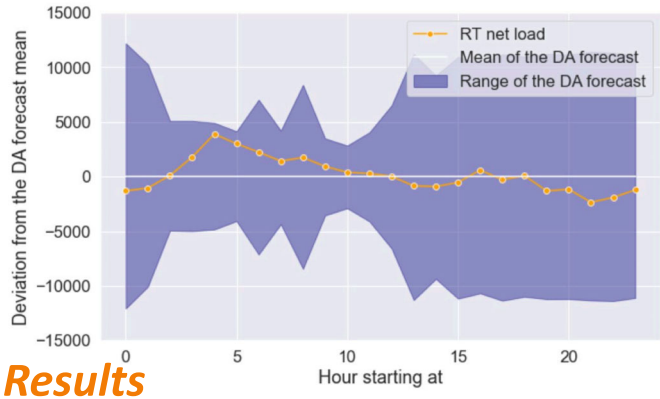
2018-03-26

RT Operating Costs for BAU case are **higher** than FA



2018-10-22

RT Operating Costs for BAU case are **lower** than FA



Preliminary Results

Next steps

- Project completed the first of three years
- Inclusion of further updated and realistic data
- Continued refinement of formulation and design
  - Discussion of aggregation procedures & risk diversification
  - Incentive compatibility and market power mitigation
  - RT commitment costs of flexible units

Please feel free to reach out with feedback or to get involved!

Rhytowitz @ epri.com

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3420 Hillview Avenue, Palo Alto, California 94304-1338 • PO Box 10412, Palo Alto, California 94303-0813 • USA
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