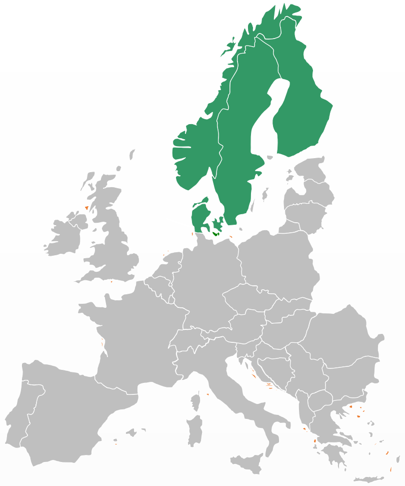

FB methodology pedagogical walkthrough

Nordic CCM Stakeholder Meeting

March 17, 2022

Ulrik Møller

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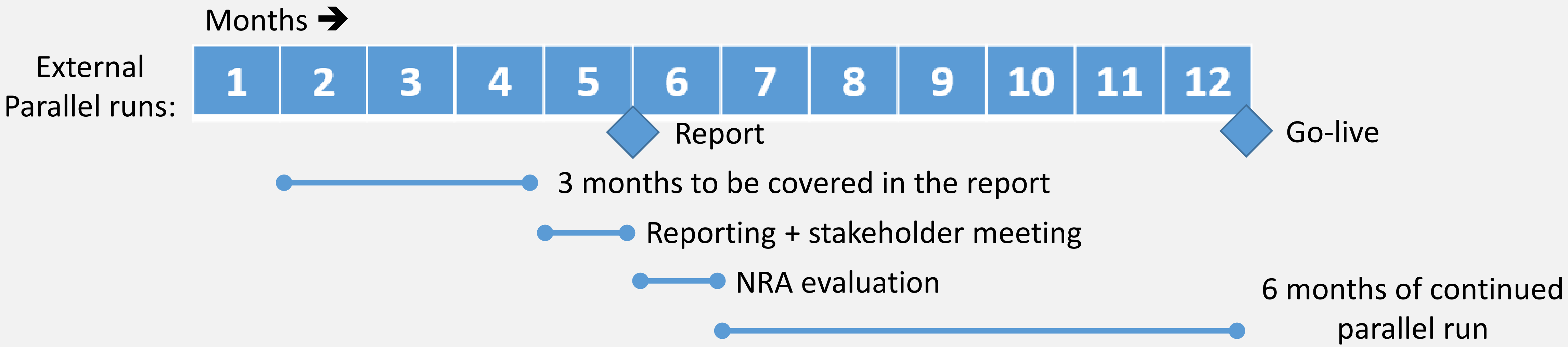
ENERGINET SVENSKA KRAFTNÄT FINGRID Statnett

Content

1. Introduction, implementation and regulatory issues
2. From physical limitations to exchange capacity
3. Principles of FB and CNTC capacity calculation
4. Different perspectives of FB and CNTC

Regulatory approval of go-live

- The NRAs of the CCR Nordic – DUR, EI, and EV – approved the amended DA/ID CCM on October 17, 2020
- The NRAs introduced changes to the "implementation timeline" in the CCM, most notably by adding a "check point" during the external parallel run:
- Theoretically, a 12-months parallel run period – as earlier foreseen – is still possible, but only allows for a very short learning-by-doing for TSOs and NRSC to have the process stabilized (and to meet the criteria of the NRAs)



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Quantitative NRA criteria for go-live

Quantitative NRA criteria to be fulfilled before start of last 6 month of EPR: Link

Use of fallback measures

- Fallback measures (as described in art 22 of the methodology) should be used in less than 3 % of MTU covered in the report to consider the methodology to operate sufficiently well concerning this criterion.
- NRAs shall assess the reasons for TSOs use of fallback measures based on the analysis and explanations received from the TSOs.

Structural delays

- The delivery of flow-based parameters by the CCC to the ENTSO-E transparency platform in accordance with Transparency Regulation ((EU) 543/2013)) is delayed for 2-10 minutes in less than 5 % of the MTUs in the time period covered in the TSOs' report. Any delay exceeding 10 minutes is not acceptable.
- The publication of flow-based parameters to stakeholders is delayed for 2-10 minutes in less than 5 % of the MTUs in the time period covered in the TSOs' report. Any delay exceeding 10 minutes is not acceptable.

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1. Introduction

- The purpose of capacity calculation is to translate physical transmission limits in the power-grid into limits on commercial trades at par with the market design and operational security
- Capacity calculation is a legal obligation for the TSOs to be carried out in a common coordinated process within each Coordinated Capacity calculation Region (CCR)
- In the Nordics, the coordinated capacity calculation process is assigned to the Regional Security Centre (RSC) office in Copenhagen, and the TSOs are responsible to deliver the local/national input to the coordinated capacity calculation process
- The legal background for capacity calculation is provided by both national legislation, and the CACM-GL, the FCA-GL, SO-GL and the Nordic CCM

Motivation

- **Legal requirements:** According to the CACM, the most efficient of two different capacity calculation methodologies, and corresponding market designs, shall be introduced within each CCR:
  - Flow Based market coupling (FB)
  - Coordinated Net Transfer Capacity market coupling(CNTC)

- As opposed to the CNTC approach, which is based on the provision of ATCs, the FB approach provides capacities for commercial power exchanges by the introduction of PTDFs and RAMs

- **Efficiency considerations:** The objective of both approaches is to improve operational security and economic efficiency of the Nordic and European electricity markets by the means of regional and Europe wide coordination, and significant improvements in automatisation and formalisation

- **Practical requirements:** Enhancements are also necessary from a practical point of view. Many new elements increases the complexity of the current Nordic power system, making it evermore complex to maintain and support the current manual capacity calculation process
  - Higher number of HVDC interconnectors
  - New AC lines and increased capacity on AC connected borders
  - Increased generation from renewable intermittent generation (wind and photovoltaic)
  - Increased efforts within market efficiency and system integration
  - Renewed focus on flexible consumption

2. From physical limitations to exchange capacity

Exchange capacities

- Exchange capacities provides limitations for the electricity market, in terms of linearized constraints, on cross zonal exchanges.
- The exchange capacities are derived from the physical capacity of the power-grid to provide linear MW limits for commercial power exchanges. The linearized constraints are simplifications of the complex non-linear physical limitations of the power-grid
- According to the CACM, there are two options for providing exchange capacities for the European electricity market:

  a) **FB:** The electricity market receives a linearized "security domain" described by power transfer distribution factors (PTDFs) on critical network elements (CNEs). The flow on each individual CNE is limited by a MW margin representing the secure physical capacity of the component(s), while the PTDF gives the flow on each CNE from a one MW injection in each BZ

  b) **CNTC:** The electricity market receives a MW limit on bilateral exchanges between any two bidding zones. The MW limits are derived from the "security domain" (bidding zone configuration is applied in order to capture all relevant limitations)

From complexity to simplicity

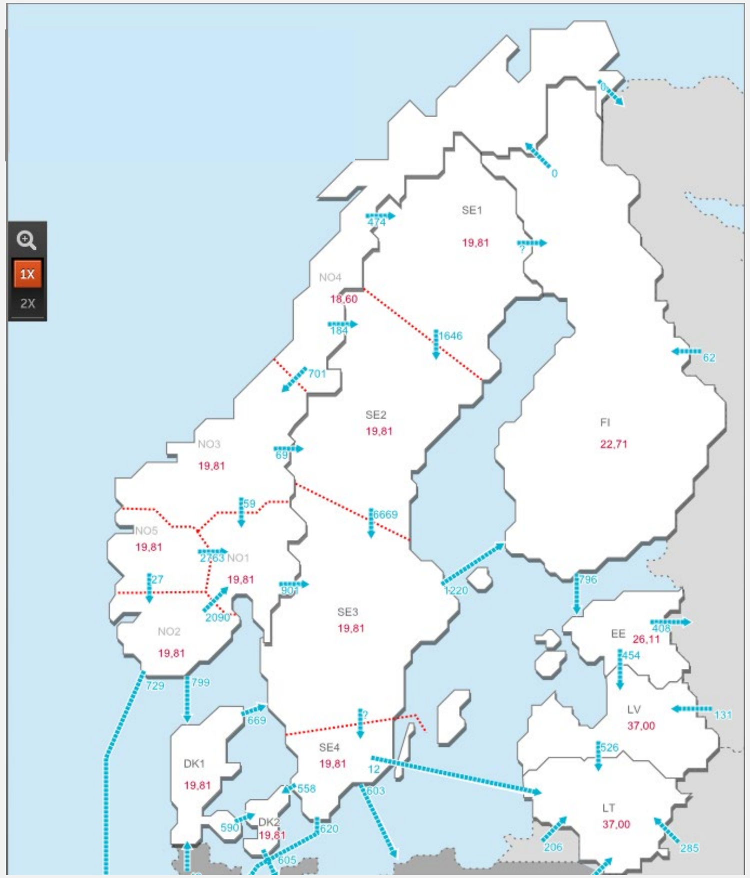
The physical world

Complexity → Simplicity

Detailed grid model → FB → CNTC

Capacity calculation is the process of translating the complex physical grid into a simplified form that can be understood and applied by the power exchange

The commercial world



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Physical grid constraints

- All physical limitations in the grid must be respected during operation and thus can either be:
  - Imposed as limits to commercial exchanges (the electricity market), or
  - Managed directly by counter trade or re-dispatch during operation
- The physical limitations are scattered around in the grid "having little regard" for actual bidding zones
  - Some physical limitations are located on, or close to, a bidding zone border
  - Other physical limitations are located inside bidding zones - internal constraints
- Bidding zone delimitation is "an attempt" to capture the limitations as efficiently as possible for the electricity market

3. Principles of FB and CNTC capacity calculation

Converting physical grid constraints into linear constraints on cross border exchanges

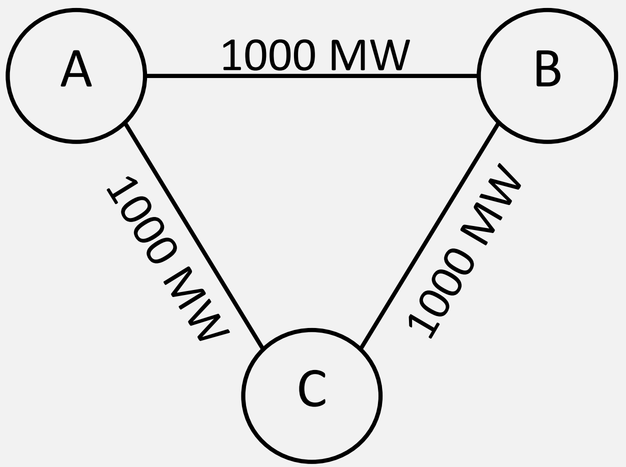
Capacity calculation - Example

Example

- A power grid consisting of 3 bidding zones and three identical lines with the physical capacity of 1000 MW each
- A and B are "generation zones"
- C is a "consumption zone“

Simplifying assumptions

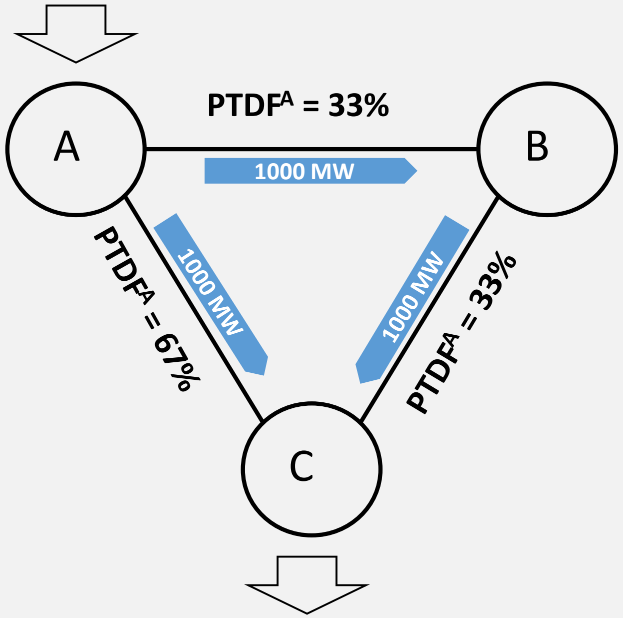
- No internal CNEs/grid constraints
- The only CNEs are the tie lines
- No reliability margin
- No contingencies
- No remedial actions



Objective: Calculate cross-border capacities

Capacity calculation

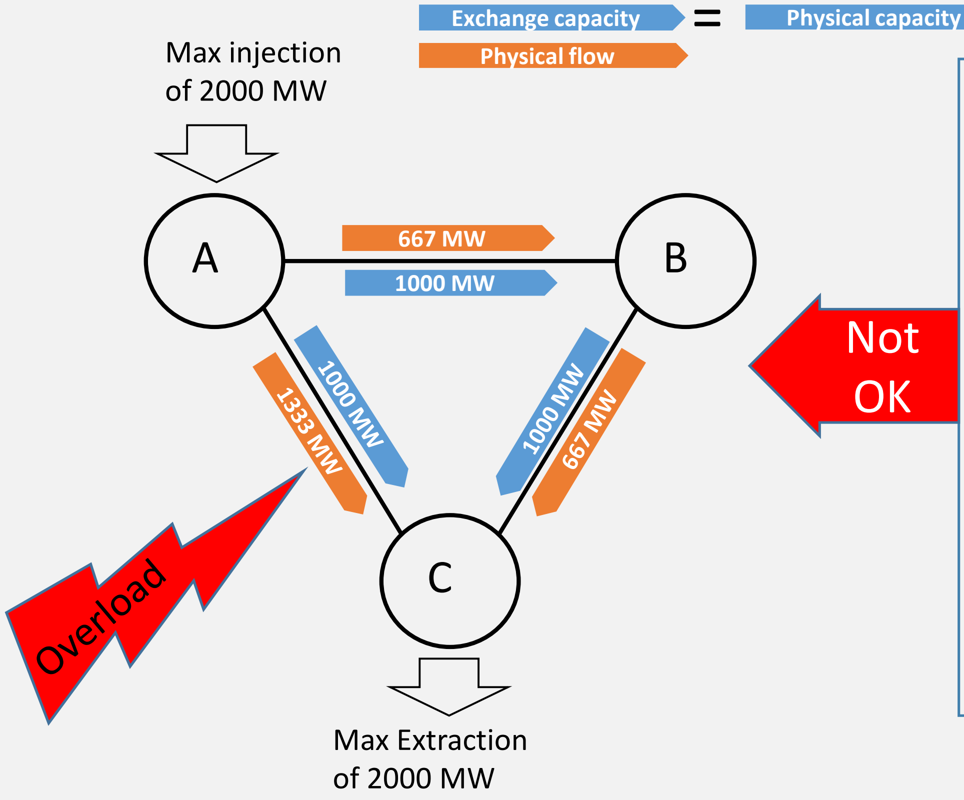
- Capacity can be described by PTDFs, and CNEs with a MW limit/margin
- The market knows a linearized version of the real physics and understands that capacities are interdependent



- The lines (a-b), (b-c) and (a-c) are CNEs
- The full limit for each line can be provided (1000 MW)
- The PTDFs are the flows induced on each line by a net injection in A, B, and C extracted in C (slack node)
- Each BZ will have a unique PTDF on each CNE
- The PTDFs are calculated by a DC load flow process applied on a CGM (linearization)

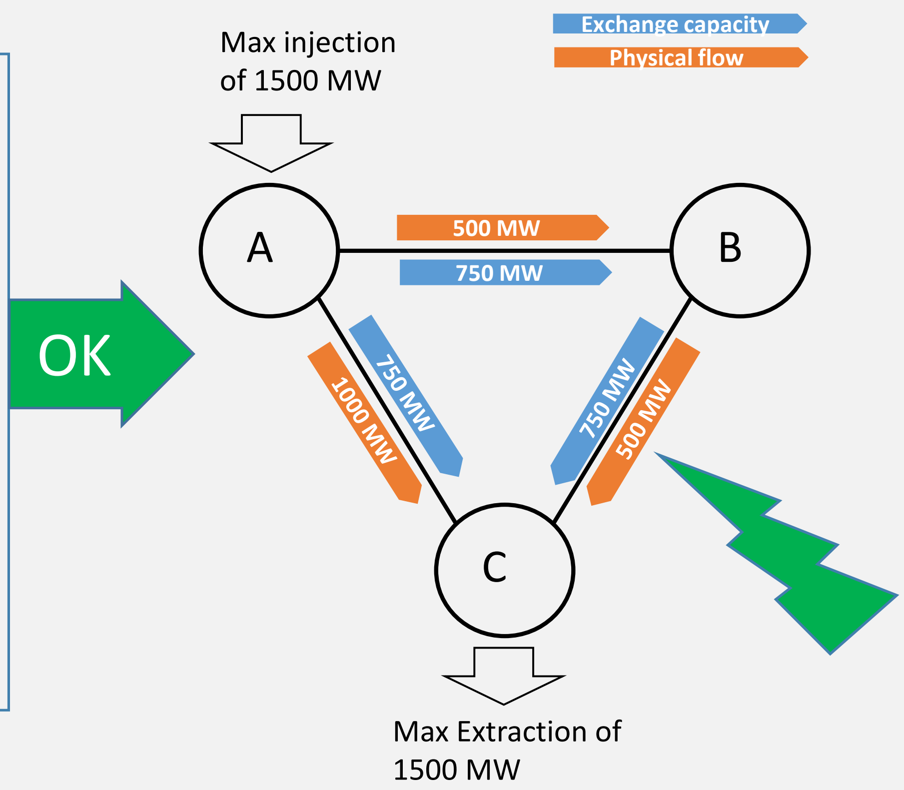
Capacity calculation - CNTC

- Capacity is provided as a MW limit (ATC) for bilateral exchange on each BZ border
- The market does not know real physics, and capacities are perceived as simultaneously available



Cannot provide the physical capacity on all lines at the same time because it allows for physical overloads

Exchange Capacities must be reduced in order to maintain operational security



Capacity calculation - CNTC

- The full set of CNTC values (ATCs) are referred to as a CNTC domain
- There is an unlimited set of potential CNTC domains available

CNTC capacities

Line	CNTC (1)	CNTC (2)	CNTC (3)	CNTC (4)	CNTC (N)
A -> B	750 MW	0 MW	200 MW	900 MW	? MW
B -> C	750 MW	1000 MW	200 MW	900 MW	? MW
A -> C	750 MW	1000 MW	1300 MW	600 MW	? MW

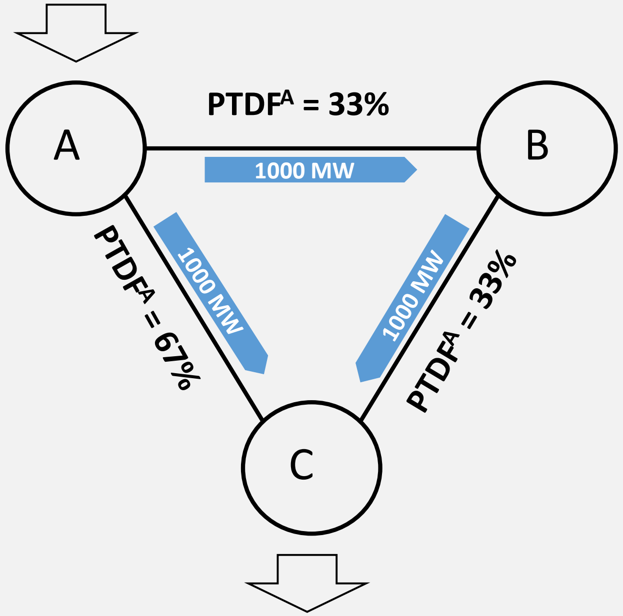
- Which ATCs to apply is based on a prognosis for the market outcome when attempting to provide capacity for the trades that are most likely to occur from a market perspective

Features of CNTC

- Priority for some bilateral trades
- Cannot fully utilize the security domain
- Complicated to manage in highly meshed grids with many BZs
- Flow determination is not a part of the market coupling (comes after), and thus there might be large differences between scheduled bilateral trades and physical flows
- The CNTC domain is not uniquely defined
- The CNTC capacities are simultaneously feasible

Capacity calculation - FB

- Capacity is provided by PTDFs, and CNEs with a MW limit/margin
- The market knows a linearized version of the real physics and understands that capacities are interdependent



- The lines (a-b), (b-c) and (a-c) are CNEs
- The full limit for each line can be provided (1000 MW)
- The PTDFs are the flows induced on each line by a net injection in A, B, and C extracted in C (slack node)
- Each BZ will have a unique PTDF on each CNE
- The PTDFs are calculated by a DC load flow process applied on a CGM (linearization)
- **The FB capacities constitute a simplified grid model to be applied by the power exchange**

Capacity calculation - FB

- The "full" security domain is provided directly as capacities to the market in the form of PTDFs and CNEs with MW margins
- The security domain is uniquely defined by the CGM

FB capacities

Line (CNE)	Max flows	PTDFs for BZ A	PTDFs for BZ B	PTDFs for BZ C (slack)
A -> B (CNE 1)	1000 MW	33 %	- 33 %	0
B -> C (CNE 2)	1000 MW	33 %	67 %	0
A -> C (CNE 3)	1000 MW	67 %	33 %	0

- The PTDFs are calculated by the CGM and thus depend on the impedances in the grid
- In this setting, the linearized security domain is often referred to as the FB domain

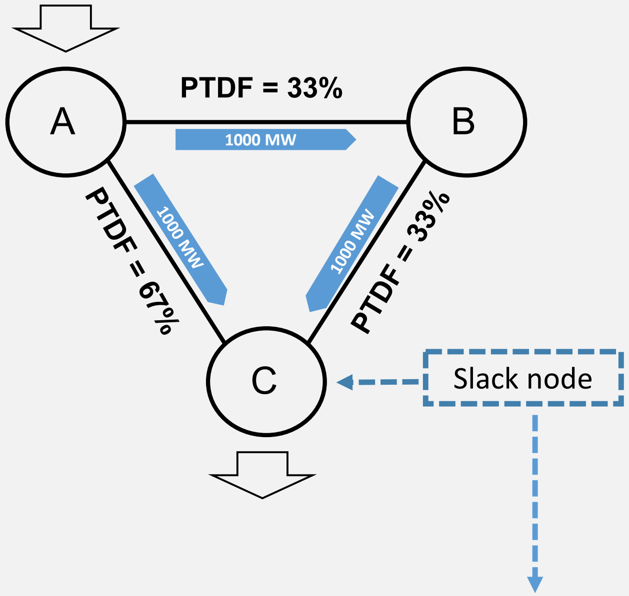
Features of FB

- Allows for price differences between uncongested areas - increases the ability of the market to utilize all available capacity
- The market coupling solves both net positions and flows and thus scheduled and physical flows are converging
- The FB domain is uniquely defined

The slack node

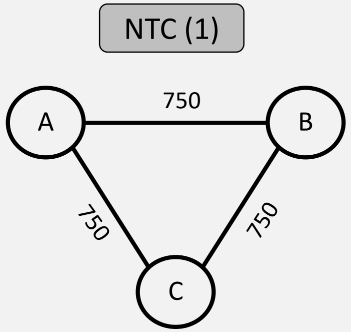
- All flows on the CNEs are being monitored by linear PTDFs by injection in a particular node and extraction in a selected slack node - "Node to slack" PTDFs
- The slack node is the reference point in the PTDF matrix
- All PTDFs for the slack itself is zero (flow from slack to slack)
- The slack node is a necessary mathematical construct, but the choice of slack has no influence on the results
- All other "node to node flows" can be derived by the PTDF matrix:

$$PTDF_{i,j}^{n} = PTDF_{i,slack}^{n} - PTDF_{j,slack}^{n}$$

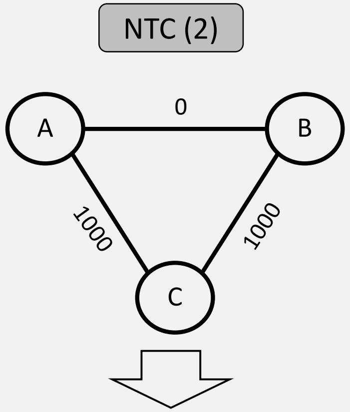


Line (CNE)	Max flows	PTDFs A	PTDFs B	PTDFs C
A -> B	1000 MW	33 %	- 33 %	0
B -> C	1000 MW	33 %	67 %	0
A -> C	1000 MW	67 %	33 %	0

FB vs CNTC

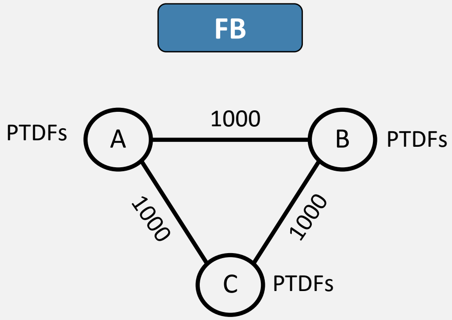


Max import/export in all BZs are 1500 MW



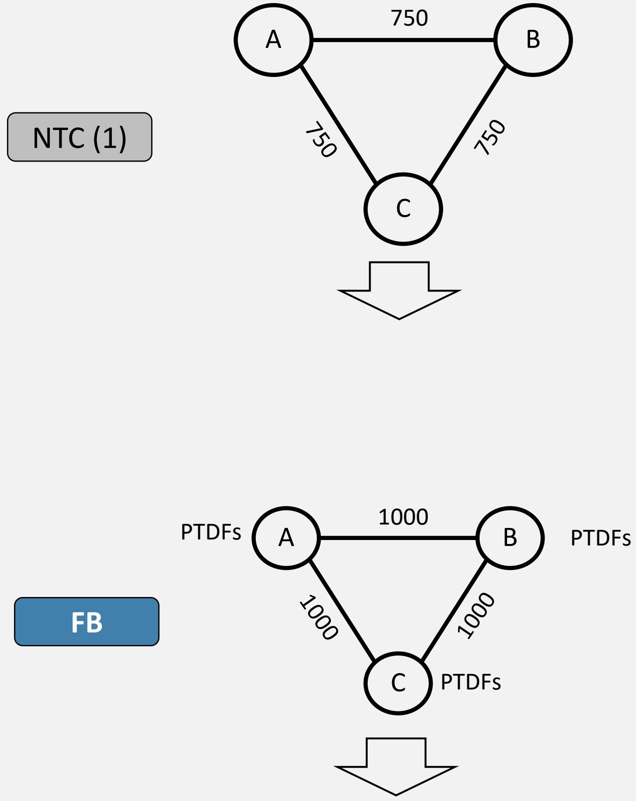
Max import/export in C is 2000 MW

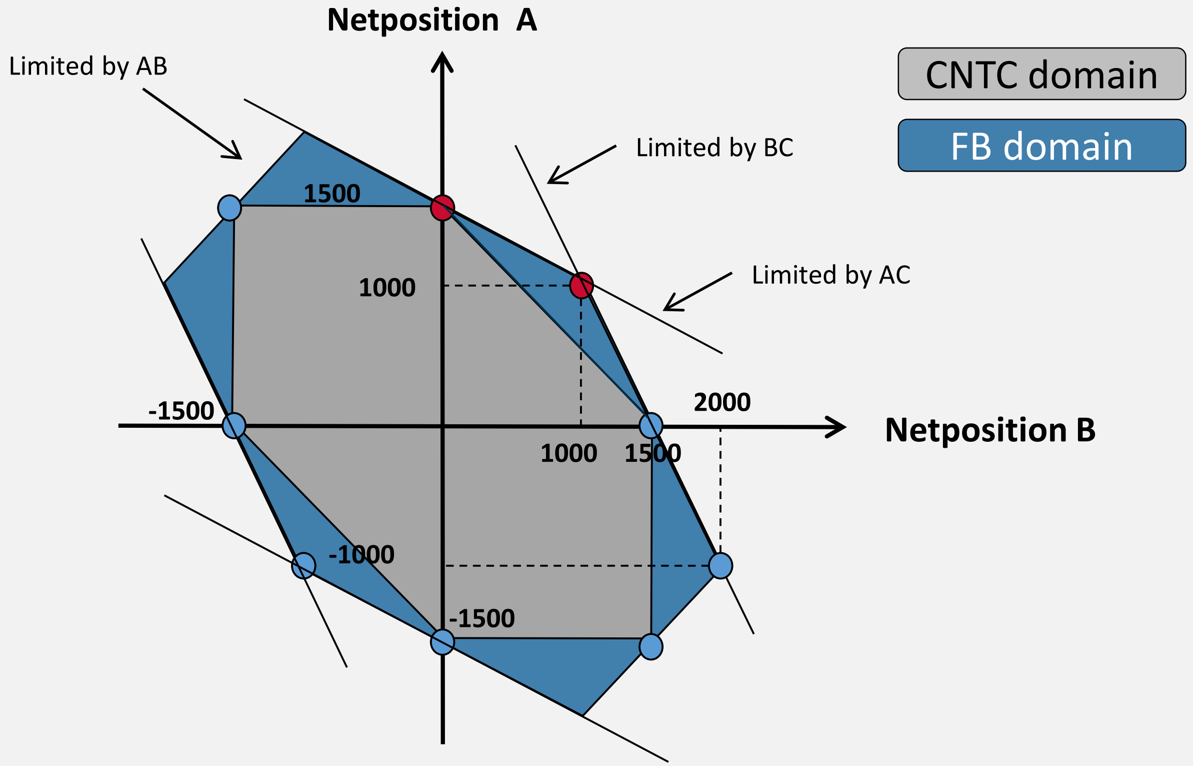
Max import/export in A and B is 1000 MW



Max import/export in all BZs are 2000 MW (but not at the same time)

The FB and CNTC domains – Valid market positions

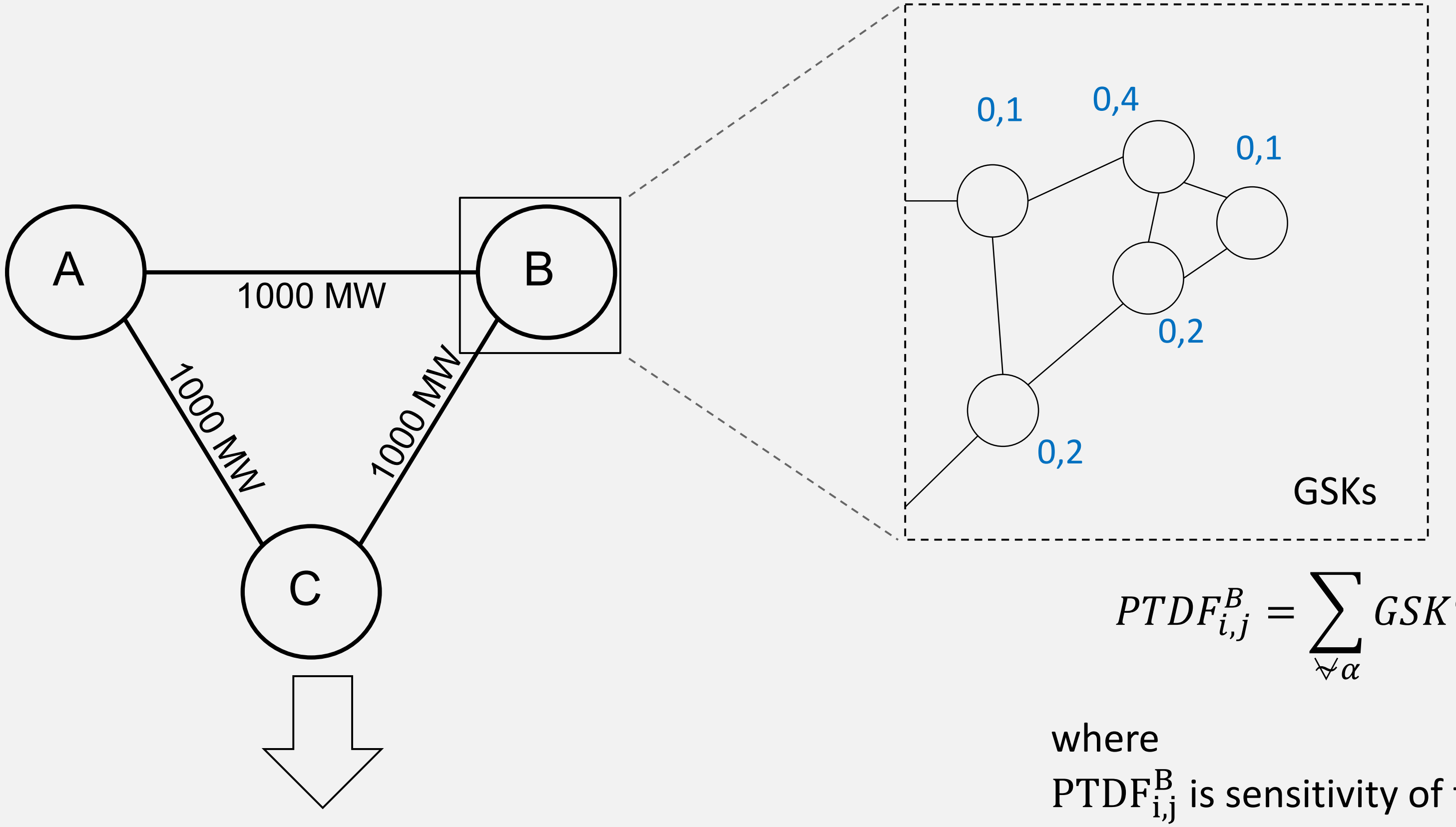




The zonal approach

- The FB and CNTC approach is based on the application of bidding zones (BZs)
- Each BZ contains multiple nodes (generation or consumption units) with a unique influence (nodal PTDF) on each constraint (CNE)
- BZs are not copperplates, but are perceived as copper plates by the market
  - All nodes inside each BZ will have the same BZ-specific influence on each CNE in the electricity market
  - Internal trades are not constrained

Generation Shift Keys (GSKs)



GSKs define how a net position change, in a given bidding zone, should be distributed to each production and load unit on that bidding zone

GSKs are used to calculate zone-to-CNE PTDFs, both for internal CNEs and interconnectors

$$PTDF_{i,j}^{B} = \sum_{\forall \alpha} GSK^{\alpha} PTDF_{i,j}^{\alpha} \quad \text{and} \quad \sum_{\forall \alpha} GSK^{\alpha} = 1$$

where

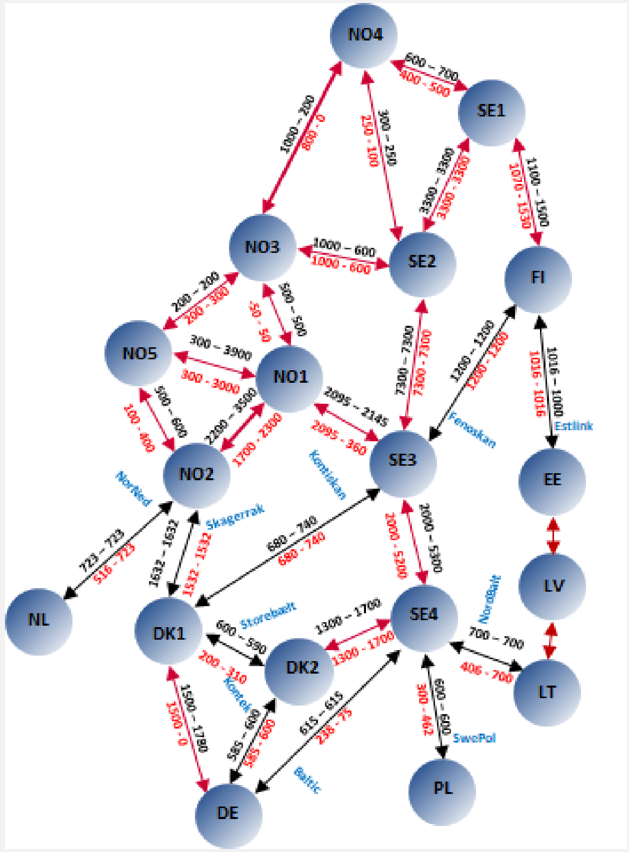
$\mathrm{PTDF}_{\mathrm{i,j}}^{\mathrm{B}}$ is sensitivity of transmission element *i,j* to injection in bidding zone B;

$\mathrm{PTDF}_{\mathrm{i,j}}^{\alpha}$ is sensitivity of transmission element *i,j* of injection in node α; and

GSK^{α} is weight of node a on the PTDF of zone B.

It gets slightly more complicated in the real world……..

- 12 BZs in the Nordics + 19 more virtual BZ to manage the HVDCs
- 70-90 limiting CNEs monitored in both directions for every hour
- Both internal and cross-zonal CNEs
- Application of remedial actions, contingencies and reliability margins for all CNEs



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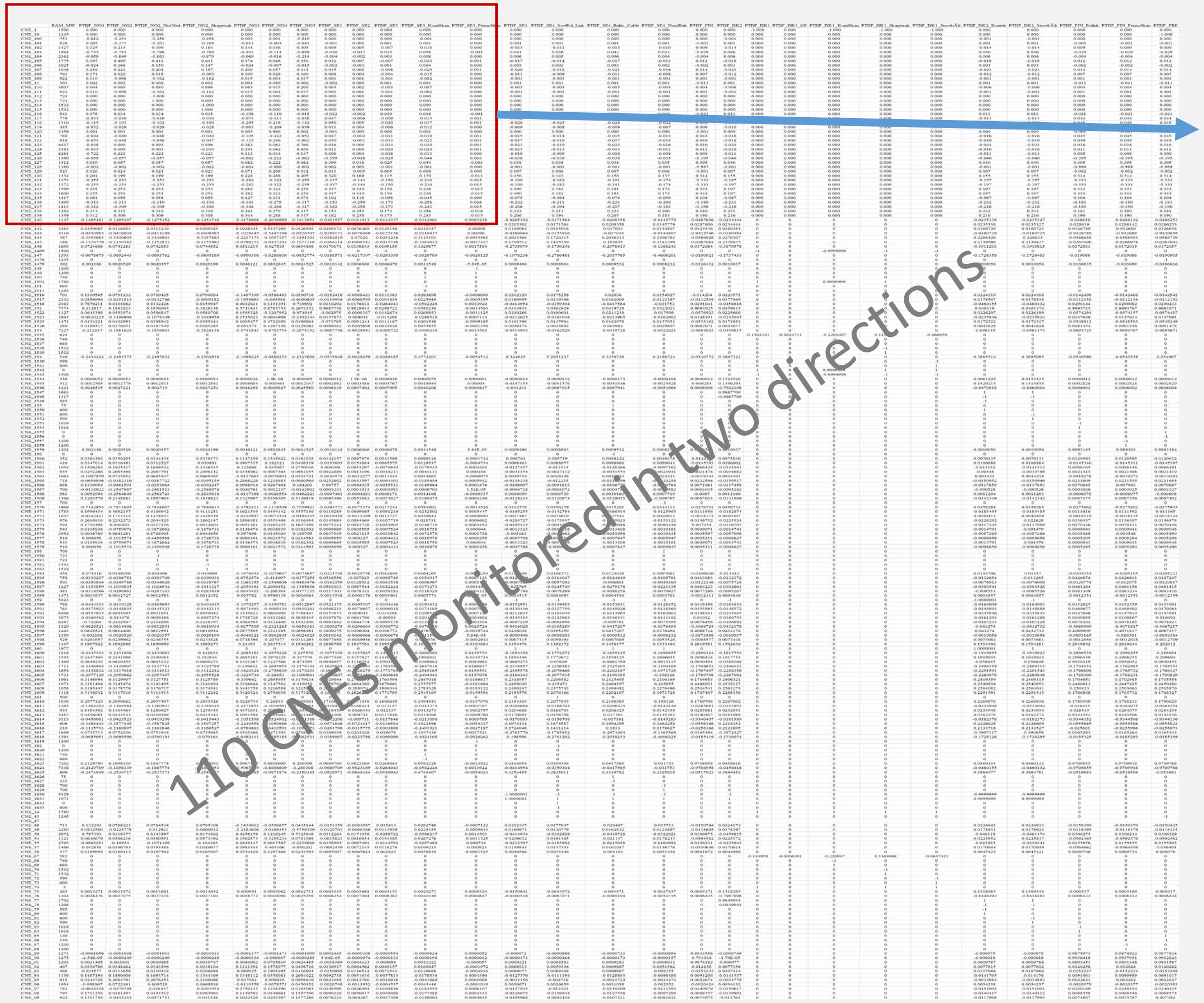
A real world PTDF matrix – 27/02 2017 Hour 0

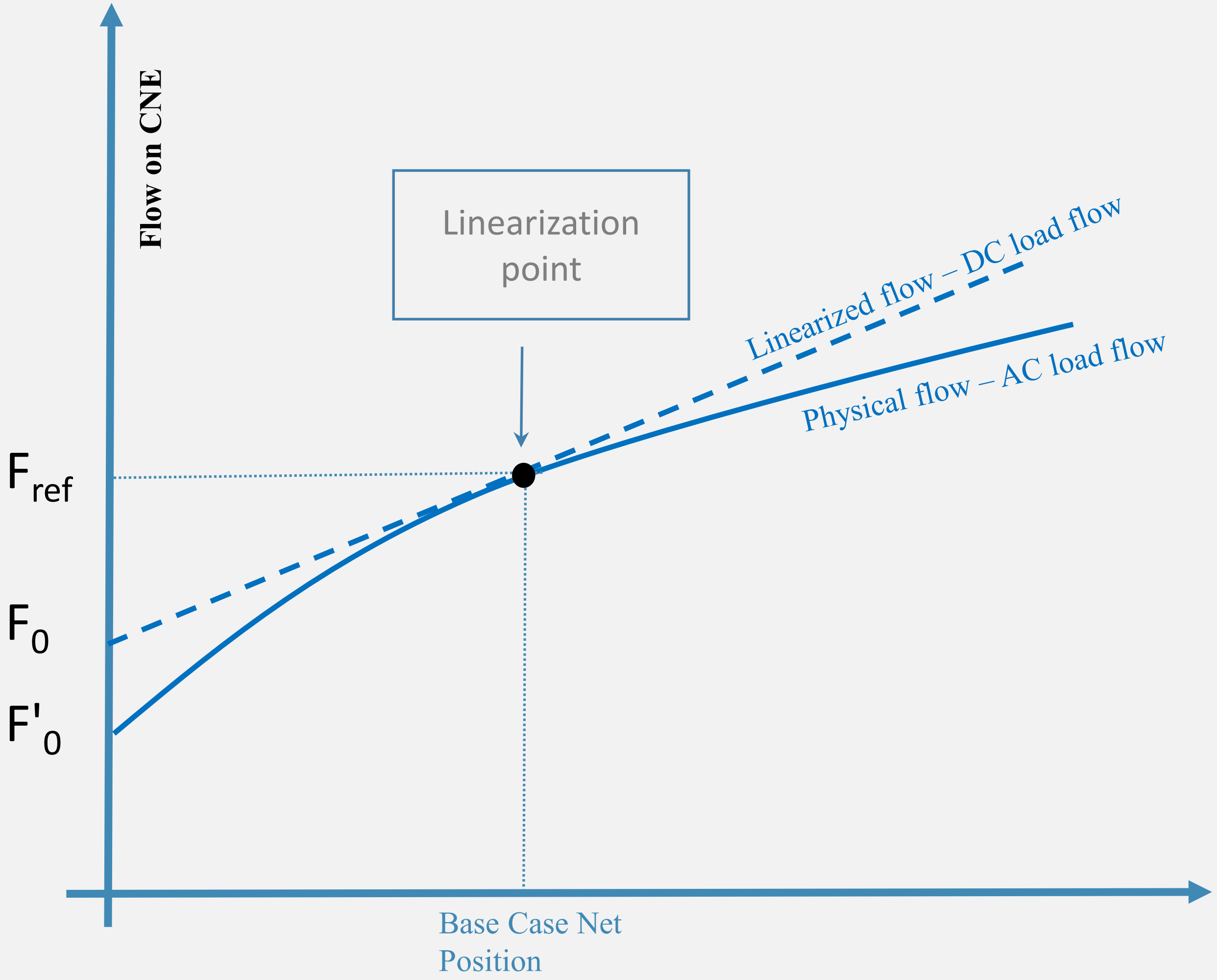


	RAM_MW	PTDF_NO1	PTDF_NO2	PTDF_NO2_NorNed	PTDF_NO2_Skagerrak	PTDF_NO3	PTDF_NO4	PTDF_NO5	PTDF_SE1	PTDF_SE2	PTDF_SE3	PTDF_SE3_KontiSkan
CNE_1	1500	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CNE_10	1245	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CNE_100	753	-0.012	-0.254	-0.250	-0.258	0.003	0.001	-0.019	0.000	0.000	0.000	-0.001
CNE_101	826	0.005	-0.271	-0.261	-0.289	-0.013	-0.003	-0.043	-0.001	0.000	0.001	0.001
CNE_102	1427	0.125	0.213	0.199	0.184	0.144	0.036	0.305	0.009	0.005	-0.007	-0.018
CNE_103	1964	-0.735	-0.783	-0.786	-0.789	-0.401	-0.114	-0.699	-0.030	-0.017	0.015	0.058
CNE_104	2362	-0.059	-0.849	-0.863	-0.879	-0.069	-0.016	-0.214	-0.004	-0.002	0.003	0.008
CNE_105	1775	0.197	0.409	0.411	0.411	0.174	0.046	0.350	0.012	0.007	-0.007	-0.023
CNE_106	1025	-0.024	0.168	0.150	0.147	-0.024	-0.007	-0.015	-0.002	-0.001	0.001	0.004
CNE_107	1036	0.259	0.221	0.204	0.187	0.200	0.057	0.344	0.015	0.008	-0.008	-0.029
CNE_108	761	0.171	0.022	0.018	-0.003	0.100	0.029	0.160	0.008	0.004	-0.004	-0.015
CNE_109	922	0.010	-0.098	-0.362	-0.182	0.015	0.004	0.037	0.001	0.001	-0.001	-0.002
CNE_11	303	0.002	0.002	0.002	0.002	0.004	0.080	0.002	-0.002	0.000	0.001	0.001
CNE_110	3807	0.004	0.868	0.880	0.896	0.063	0.015	0.200	0.004	0.002	-0.003	-0.007
CNE_111	922	0.010	-0.098	-0.362	-0.182	0.015	0.004	0.037	0.001	0.001	-0.001	-0.002
CNE_112	723	0.000	0.000	-1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CNE_113	723	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CNE_114	1532	0.000	0.000	0.000	-1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CNE_115	1532	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CNE_116	543	0.076	0.034	0.034	0.035	-0.198	-0.110	-0.015	-0.022	-0.002	0.010	0.016
CNE_117	779	-0.033	-0.030	-0.030	-0.030	-0.074	-0.411	-0.038	0.047	-0.006	-0.009	-0.015
CNE_118	1310	-0.115	-0.103	-0.102	-0.100	-0.295	0.219	-0.142	0.050	0.005	-0.020	-0.037
CNE_119	485	-0.032	-0.029	-0.029	-0.028	-0.083	-0.269	-0.039	0.011	0.004	-0.006	-0.012
CNE_120	1459	0.001	0.001	0.001	0.001	0.005	0.966	0.002	-0.001	0.000	0.000	0.001
CNE_121	788	-0.044	-0.040	-0.040	-0.040	-0.105	-0.442	-0.052	0.047	-0.004	-0.011	-0.019
CNE_122	918	-0.053	-0.048	-0.048	-0.047	-0.125	0.246	-0.062	0.050	-0.001	-0.013	-0.022
CNE_123	6437	-0.048	0.890	0.893	0.896	0.282	0.062	0.766	0.016	0.009	-0.014	-0.030
CNE_124	3181	-0.035	0.009	0.001	-0.010	0.191	0.042	0.456	0.011	0.006	-0.010	-0.020
CNE_125	6261	-0.722	0.221	0.222	0.223	0.113	0.034	0.147	0.008	0.004	-0.018	-0.013
CNE_126	1360	-0.059	-0.057	-0.057	-0.057	-0.082	-0.222	-0.062	-0.399	-0.018	-0.029	-0.044
CNE_127	1412	0.059	0.057	0.057	0.057	0.082	0.222	0.062	0.399	0.018	0.029	0.044
CNE_128	1380	-0.002	-0.002	-0.002	-0.002	-0.004	-0.080	-0.002	0.002	0.000	-0.001	-0.001
CNE_129	523	0.026	0.024	0.024	0.023	0.071	0.209	0.032	0.011	-0.005	0.005	0.009
CNE_130	1334	0.201	0.199	0.199	0.199	0.228	0.288	0.205	0.320	0.169	0.115	0.170
CNE_131	1173	-0.255	-0.253	-0.253	-0.253	-0.282	-0.322	-0.259	-0.337	-0.344	-0.150	-0.216
CNE_132	1172	-0.255	-0.253	-0.253	-0.253	-0.282	-0.322	-0.259	-0.337	-0.344	-0.150	-0.216
CNE_133	1599	0.255	0.253	0.253	0.253	0.282	0.322	0.259	0.337	0.344	0.150	0.216
CNE_134	1600	0.255	0.253	0.253	0.253	0.282	0.322	0.259	0.337	0.344	0.150	0.216
CNE_135	1417	0.061	0.056	0.056	0.055	0.127	0.131	0.071	0.102	0.116	-0.056	-0.045
CNE_136	1490	-0.313	-0.311	-0.310	-0.310	-0.341	-0.279	-0.317	-0.153	-0.250	-0.173	-0.256

Zone to slack PTDFs

4. Different perspectives of FB and CNTC

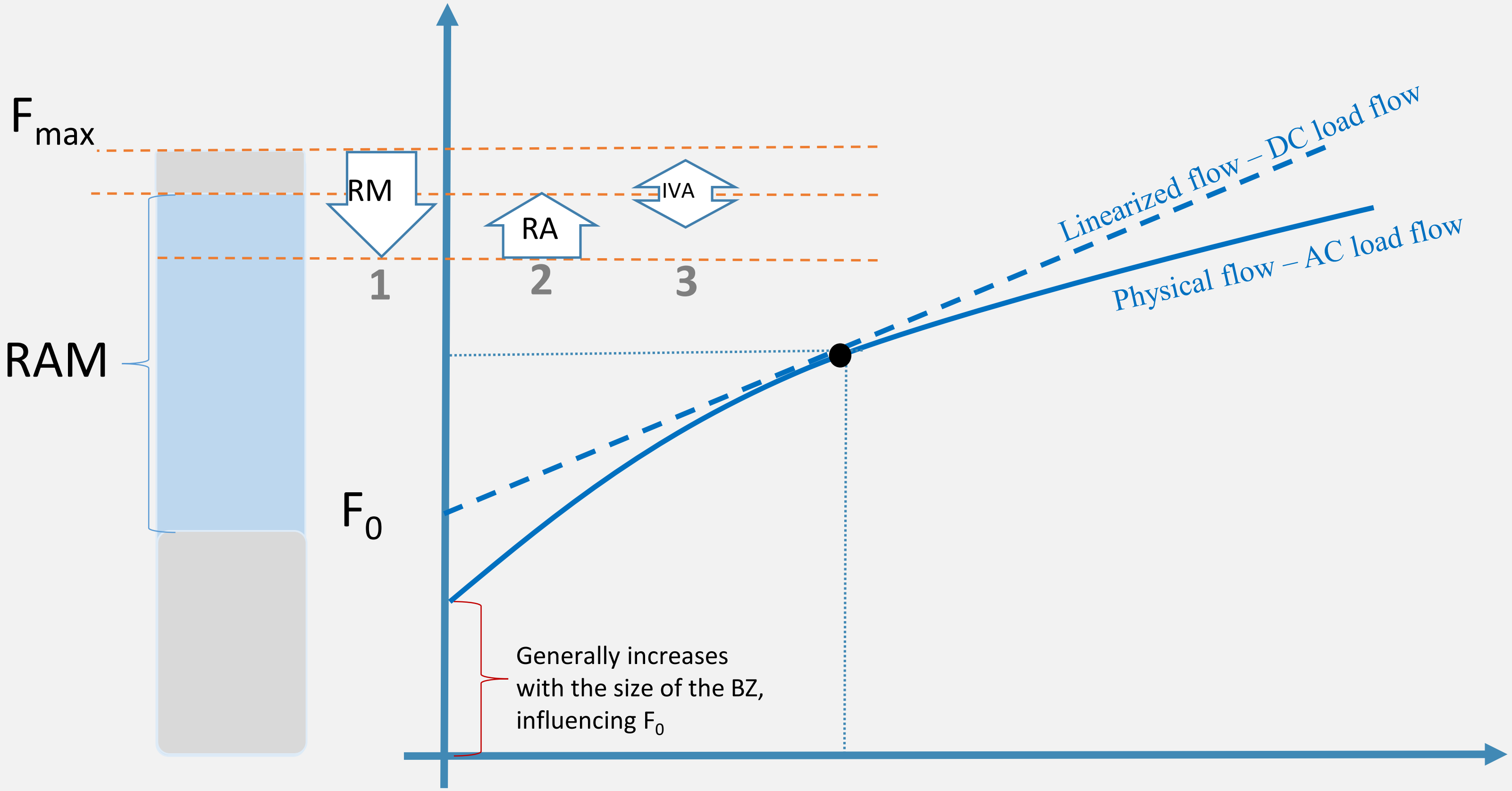
How the PTDFs are derived



- Physical flows are non-linear functions of power injections (NP)
- The PTDFs represent a linearization of these non-linear flows, calculated by a DC-load flow analysis based on the CGM
- For the PTDF to be as precise as possible, the linearization is made in the base case (forecasted market position)
- The forecasted flow is:

$$F_{ref} = F_0 + PTDF * NP$$

How the margins of the CNEs are derived



- The max allowed flow (Fmax) on the CNE are calculated in a (if necessary dynamic) grid model
- The max allowed flow is reduced / altered in three steps
  1. Subtract the flow reliability margin (RM)
  2. Add Remedial actions (RA)
  3. If necessary, adjust the final result by last minute information (FAV), zero in the figure
- The constraint (Capacity) for the market becomes:

$$F_0 + PTDF * NP \leq F_{max} + RA - RM - IVA$$

⇩

$$PTDF * NP \leq F_{max} + RA - RM - IVA - F_0$$

⇩

$$\mathbf{PTDF * NP \leq RAM}$$

Ingredients of capacity calculation

- Input to capacity calculations
  - Common Grid Model (CGM)
  - GSKs
  - CNEs
  - Operational security limits
  - Contingencies
  - Remedial Actions (RA)
  - Reliability Margin (RM)
  - Individual Validation Adjustment (IVA– Applied in the final validation phase)
  - AAC (Already-allocated capacity)
  - Allocation constraints

- Output from the market optimization
  - BZ prices (FB and CNTC)
  - BZ Net positions (FB and CNTC)
  - Flows (FB)
  - Shadow prices (FB and CNTC)

- The input data to CNTC and FB is the same
- The most important difference is the way grid constraints are provided to the market coupling and the fact that flow determination is a post process in CNTC with multiple possible solutions

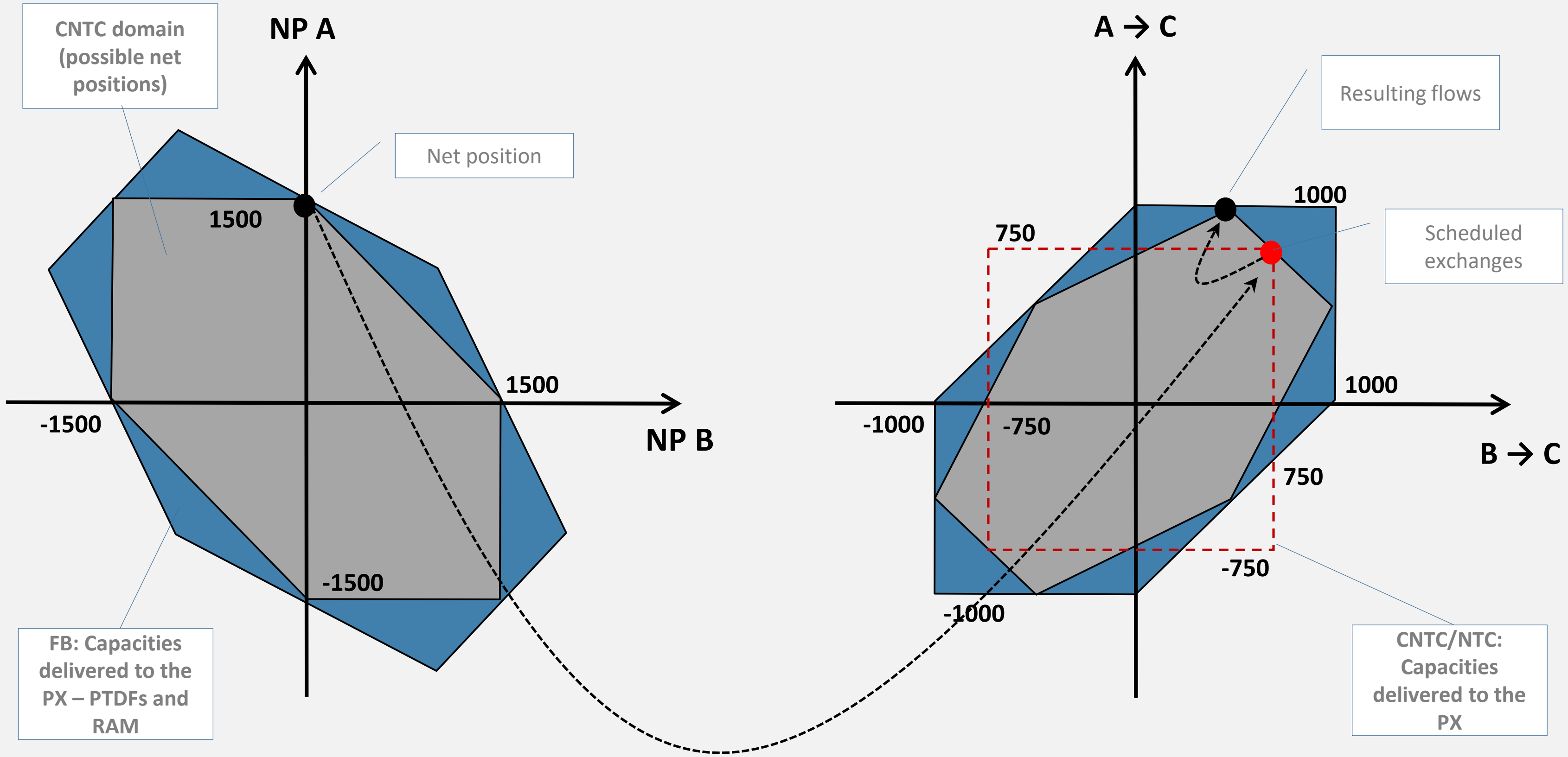
The security domains can be illustrated in two ways

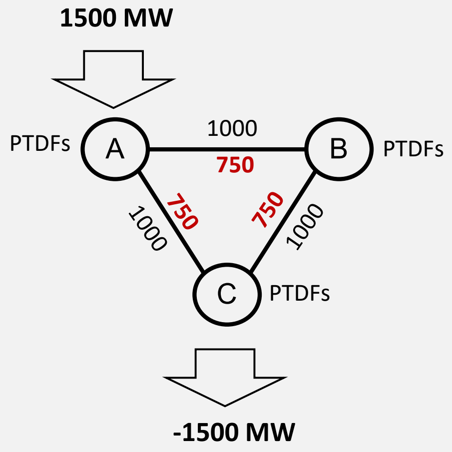
1. Which net positions are "allowed" in the market solution

2. Which flows are "allowed" in the market solution

The CNTC limits are imposed on the right hand figure, but it does not compare to the domains

- CNTC values shows valid bilateral exchanges
- The CNTC flow domain is not uniquely defined by one unique set of ATCs
- The flow-domains shows valid physical flows





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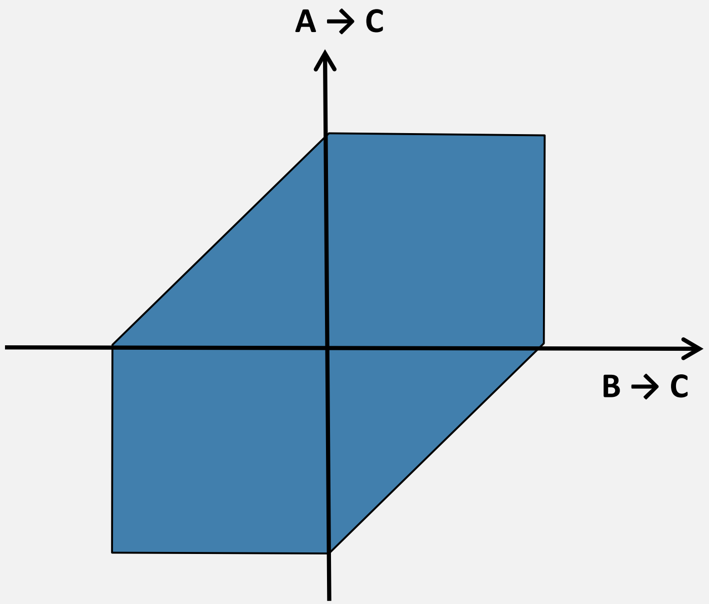
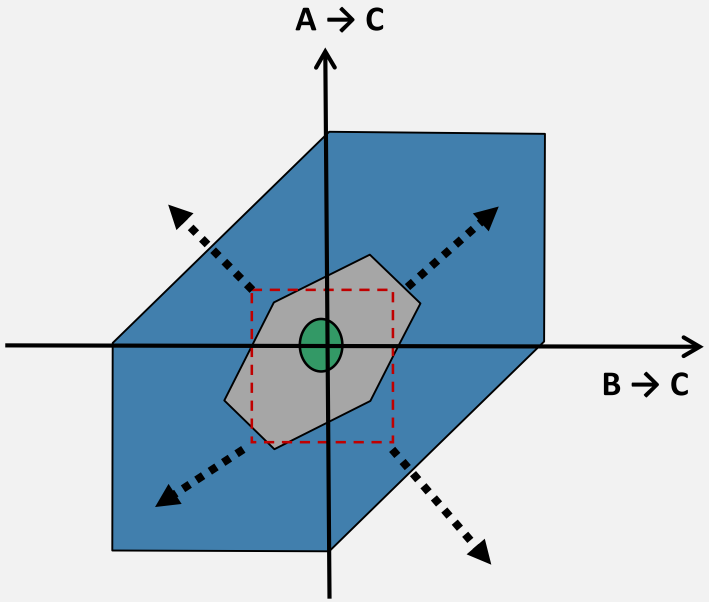
Principles for deriving a CNTC respecting the boundaries of the security domain

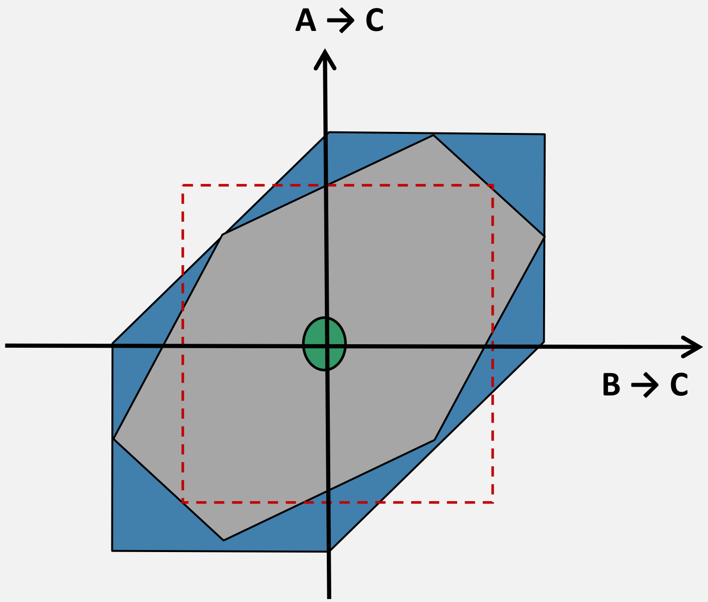
Step 1: define the security domain

Step 2: Define the objective function and constraints to find an optimal CNTC-domain from the security domain

Step 3: Extract the final and optimized CNTC values





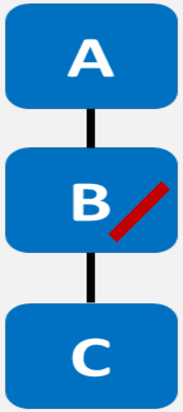


Possible approach: Maximize the product of "CNTC values"

Subject to "All allowed flows shall be inside the security domain"

Managing internal CNEs in FB and CNTC

Flow based method



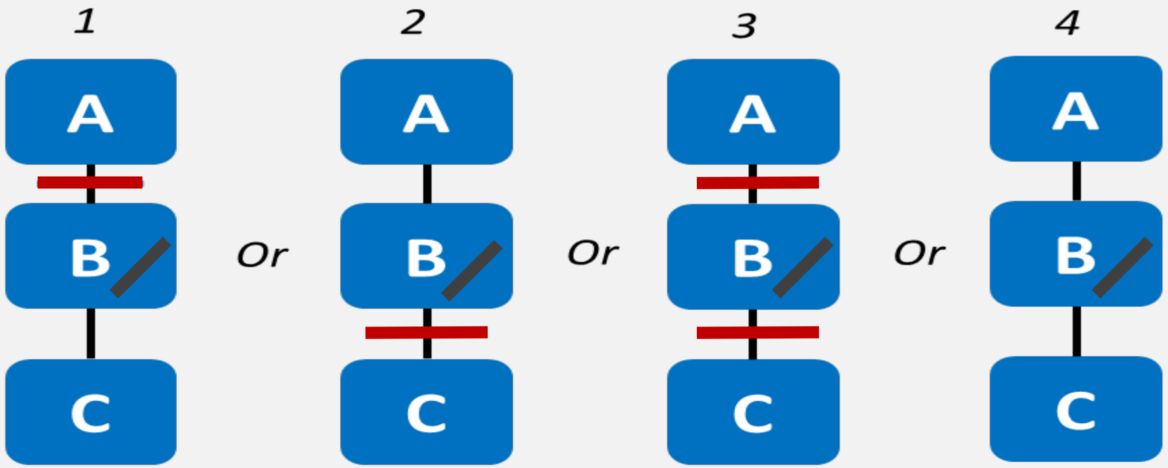
Internal constraint modelled directly

The internal constraint can be modelled directly

Capacity is allocated according to willingness to pay, and the difference in influence on the constrain from the different bidding areas

Add as a CNE to the PTDF-matrix

CNTC method



1

Constraint moved to border A-B

Exchange between area B and C is prioritized

Area A cannot utilize transmission capacity not used by areas B and C

No limit on exchange between B and C can lead to overloads

2

Constraint moved to border B-C

Exchange between area A and B is prioritized

Area C cannot utilize transmission capacity not used by areas A and B

No limit on exchange between A and B can lead to overloads

3

Constraint on border A-B and B-C

All trade restricted

Distribution of capacity not according to willingness-to-pay

Capacity not used by one area cannot be used by another

No overloads on internal constraint from cross border exchange

4

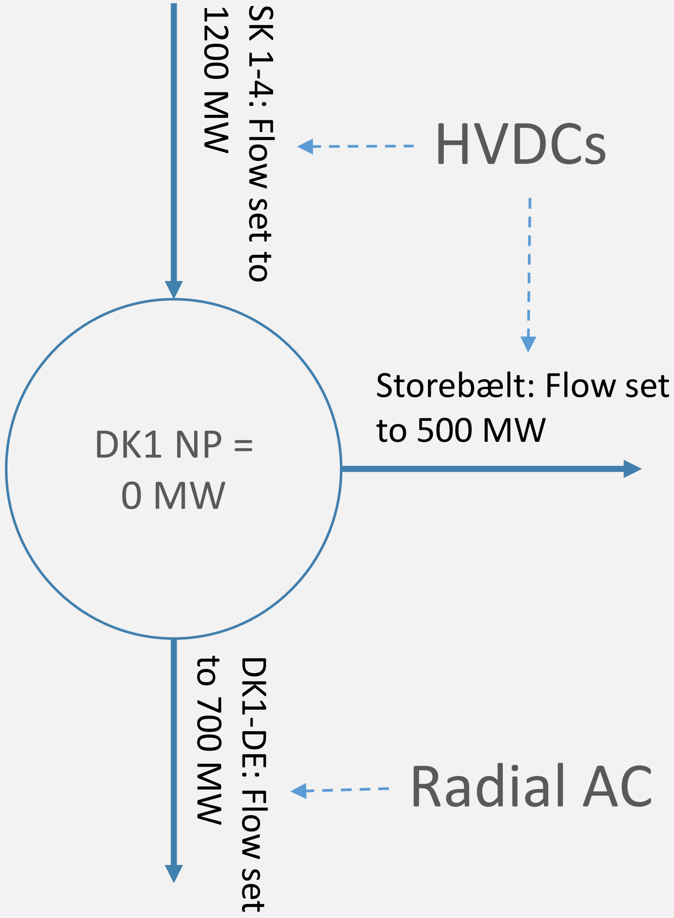
Constraint disregarded

No restrictions

Overloads to be solved by costly remedial actions

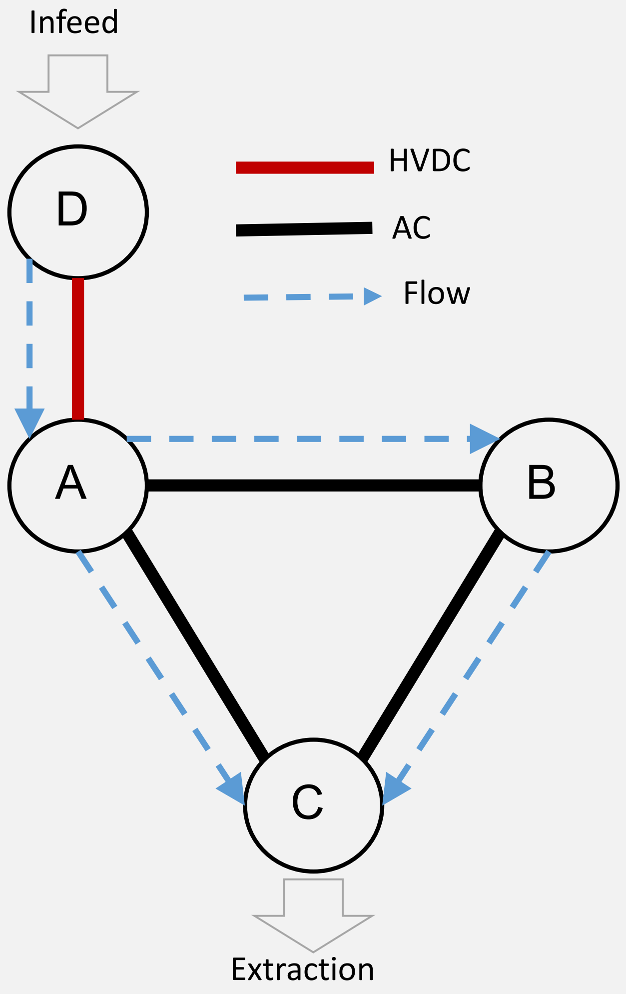
Managing HVDC connections

- While the flows in an AC grid fans out according to physical laws, the flow on an DC connection (or a radial AC connection) is fully manageable by the operator → don't need PTDFs to manage flows on an HVDC (or a radial AC connection) connection
- If all connections were either HVDC and/or radial, the CNTC approach would provide the same efficiency/market solution as FB
- With HVDC we can let the market decide the flows and simply set the system to realize the scheduled flows

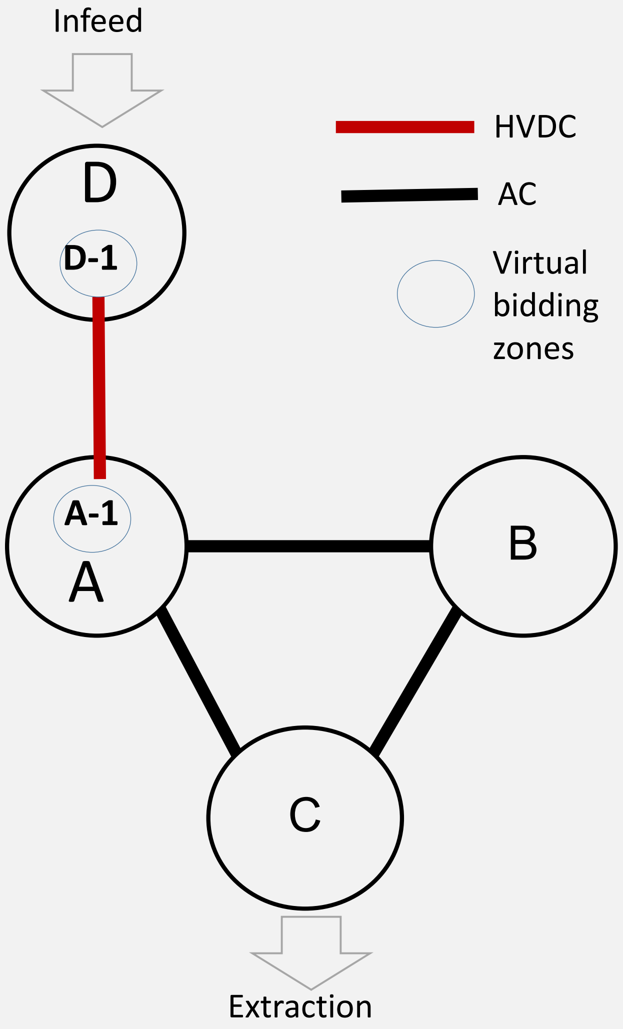


HVDC flows needs to be managed in the AC grid

- When the flows from HVDCs (and radial AC connections) enter the meshed AC grid, they will fan out according to the physical laws and occupy the limited capacity on the grid components
- Flows coming from HVDC (and radial AC) connections need to be managed in the AC grid
- The HVDC functions like a remote generator, creating the same flows in the AC grid as an internal generator



Equal access for HVDC are implemented by "virtual bidding zones"



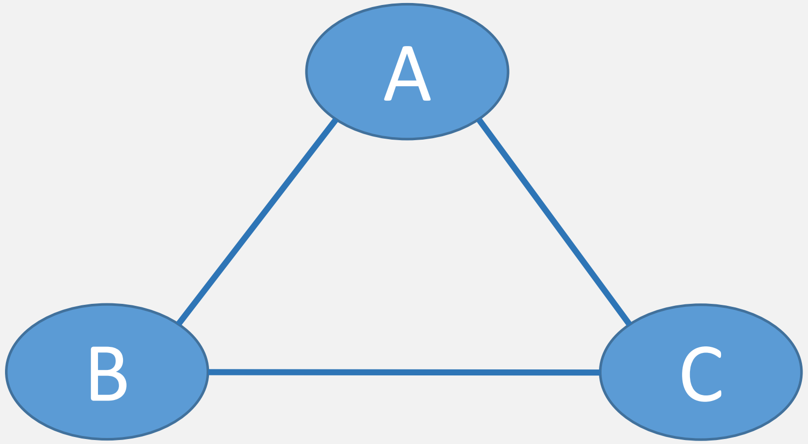
Line (CNE)	Max flows	PTDF A	PTDF B	PTDF C	PTDF A-1
A -> B (CNE 1)	1000 MW	33 %	- 33 %	0	45%
B -> C (CNE 2)	1000 MW	33 %	67 %	0	45%
A -> C (CNE 3)	1000 MW	67 %	33 %	0	55%

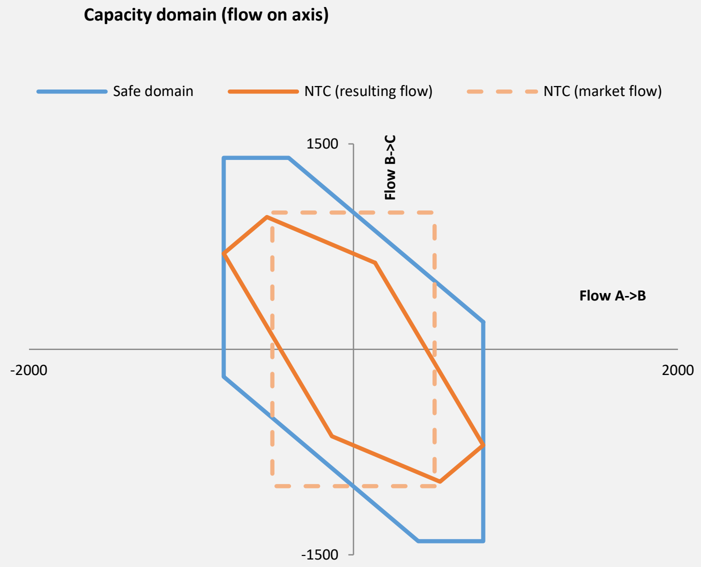
- A new bidding zone, A-1, is introduced in the PTDF matrix (for the "southern" control area)
- The HVDC is connected to the virtual bidding zone
- The virtual bidding zone is "empty", it contains no bids
- The virtual bidding zone will have a unique price in the coupling process, but will receive the price of the surrounding zone in the settlement process

"Non-intuitive" flows

- A non intuitive flow is a flow from a high price to a low price BZ
- Non intuitive flows are a result of the FB market optimization
- Non-intuitive flows occur to relieve congestions on constrained grid elements
- Non-intuitive flows occur when the welfare economic cost of a non-intuitive flow is smaller than the welfare economic benefit of relieving a congestion
- By relieving capacity on congested grid elements, non-intuitive flows contribute positively to the overall market efficiency, and thus generate a market wide efficiency gain
- In equilibrium, the marginal value of all trades are equal
- Non intuitive flows are applied in existing nodal price systems, and in the current Nordic market by enforcing the power to flow in a certain direction (NO1-NO3, and NO5-NO3)

Application to a market with only "intuitive flows"

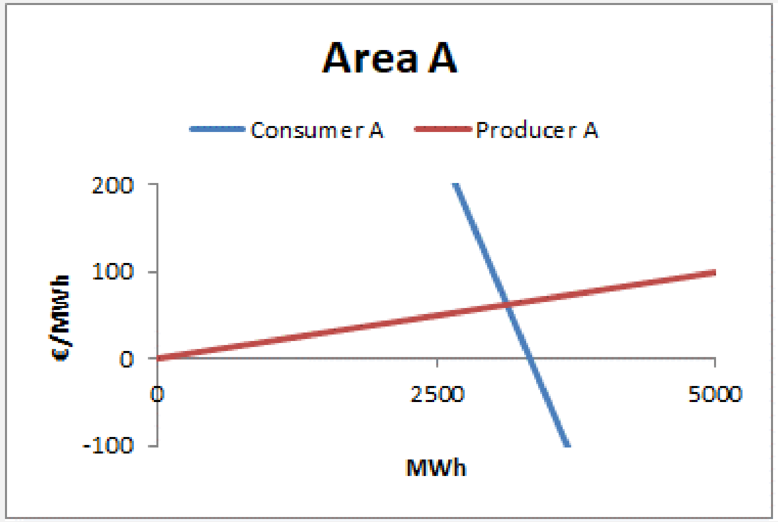


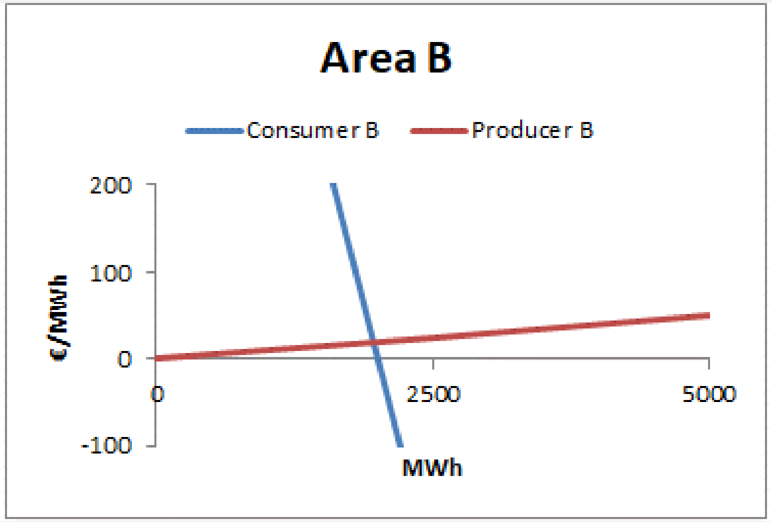


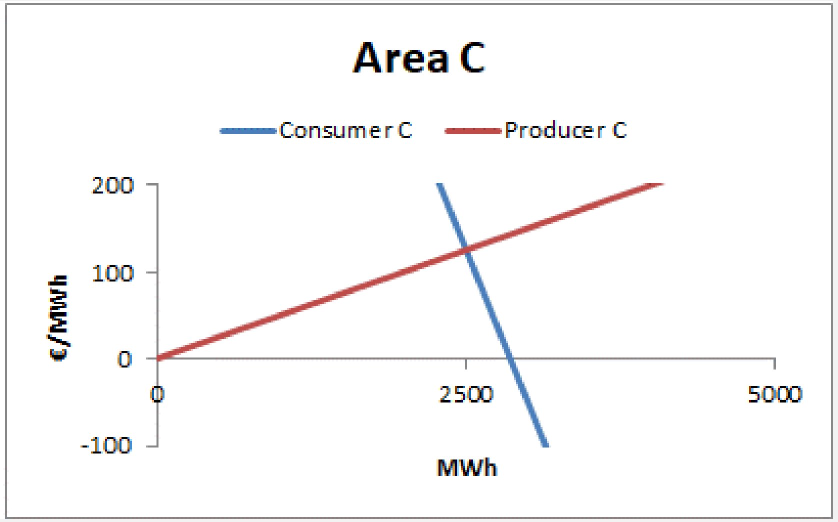
Line (CNE)	Max flow	Min flow	PTDF A	PTDF B	PTDF C
A -> B (CNE 1)	1000 MW	-1000 MW	33 %	- 33 %	0
B -> C (CNE 2)	1000 MW	-1000 MW	33 %	67 %	0
A -> C (CNE 3)	1000 MW	-1000 MW	67 %	33 %	0

Line (CNE)	Max flow	
A -> B (CNE 1)	750 MW	
B -> C (CNE 2)	750 MW	
A -> C (CNE 3)	750 MW	

Example – The market (prices, quantities) before exchange





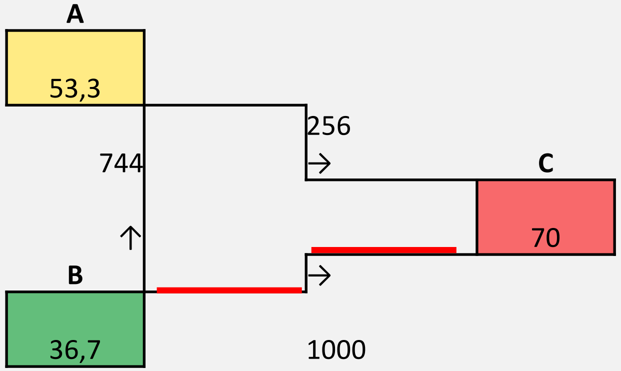


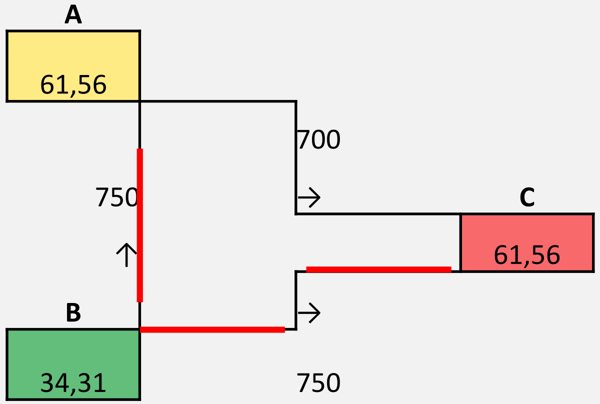
FB market solution

FB: B-A congested

Non-intuitive flow A-C

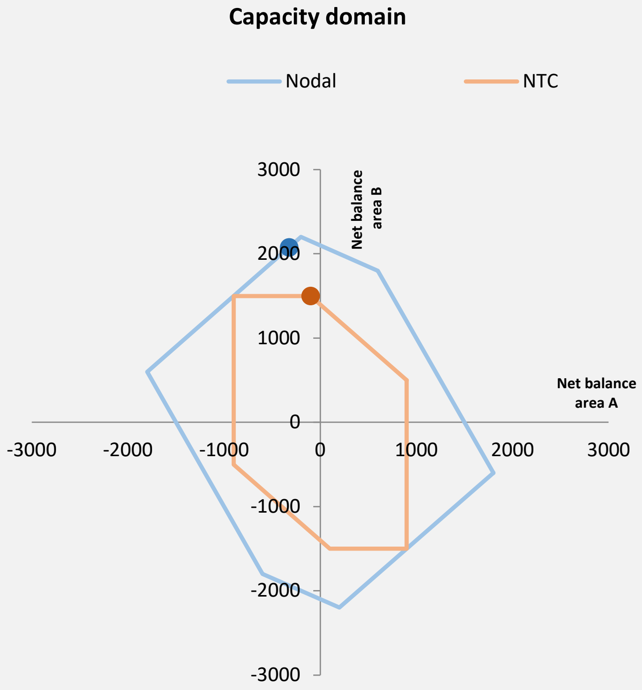
Global optimum

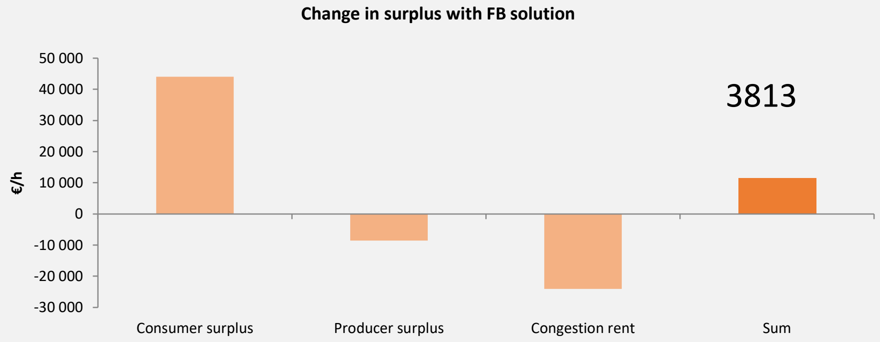




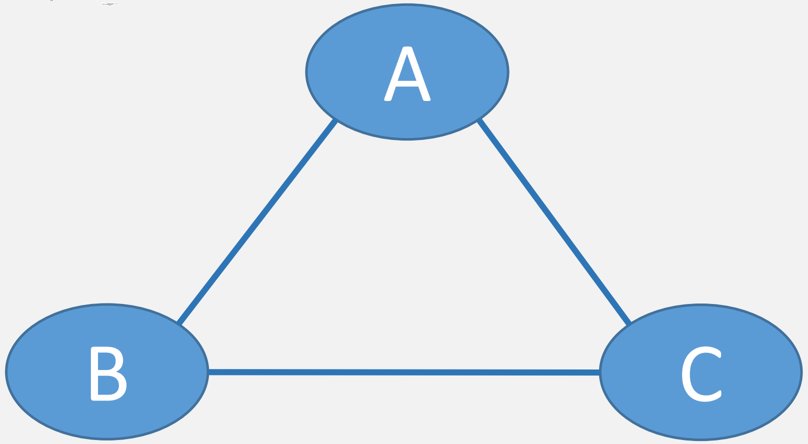
Marginal value of bilateral trades in FB

A-B	**B-A**	**B-C**	C-B	**A-C**	C-A	**Sum shadow prices**
49,994	49,994	49,994	49,994	49,994	49,994	49,994
49,99	49,99	49,99	49,99	49,99	49,99	49,99

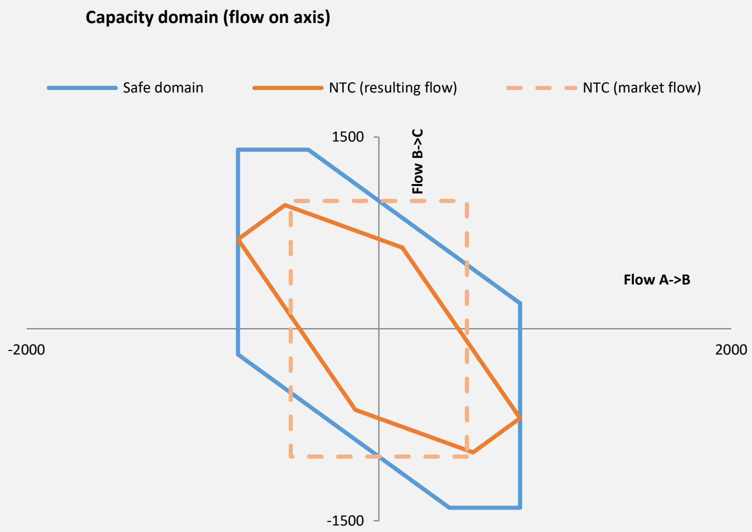




Example - Non intuitive flow

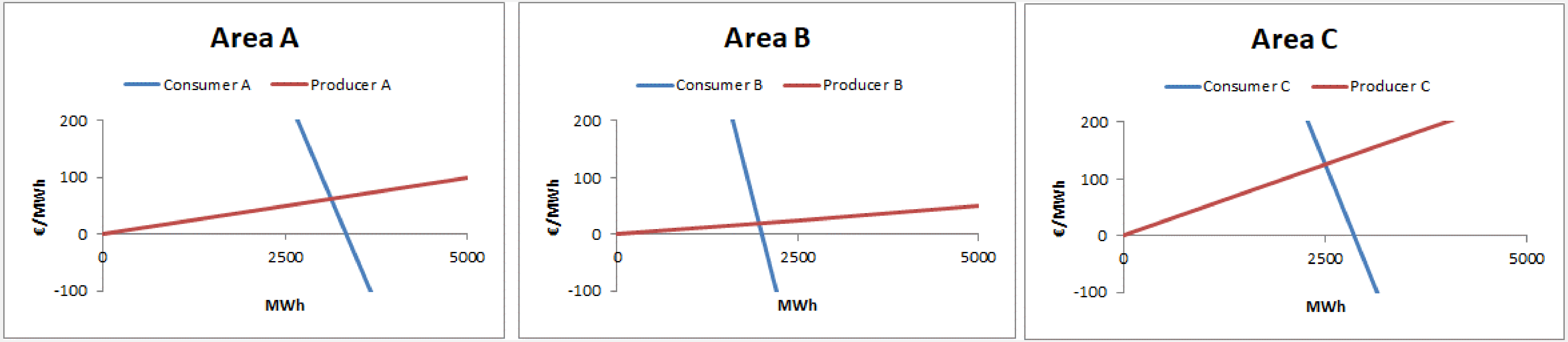


Line (CNE)	Max flow	Min flow	PTDF A	PTDF B	PTDF C
A -> B (CNE 1)	800 MW	-800 MW	33 %	- 33 %	0
B -> C (CNE 2)	1400 MW	-1400 MW	33 %	67 %	0
A -> C (CNE 3)	1000 MW	-1000 MW	67 %	33 %	0



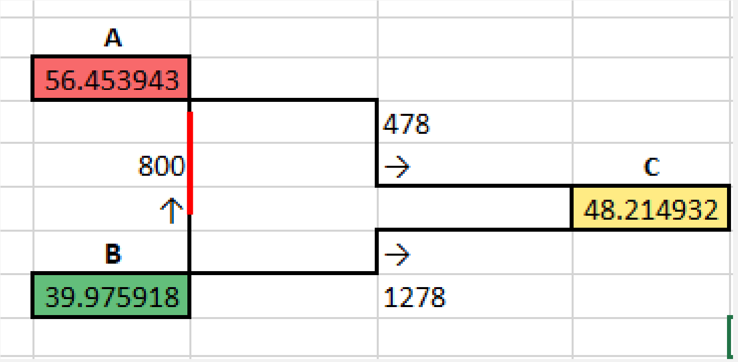
Line (CNE)	Max flow	
A -> B (CNE 1)	450 MW	
B -> C (CNE 2)	1000 MW	
A -> C (CNE 3)	500 MW	

Example – The market

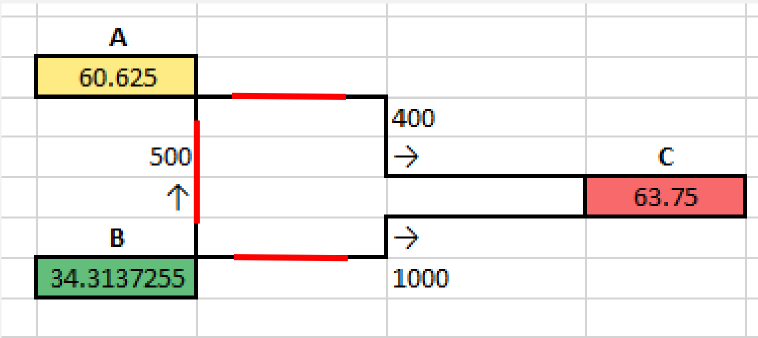


FB and CNTC market solution

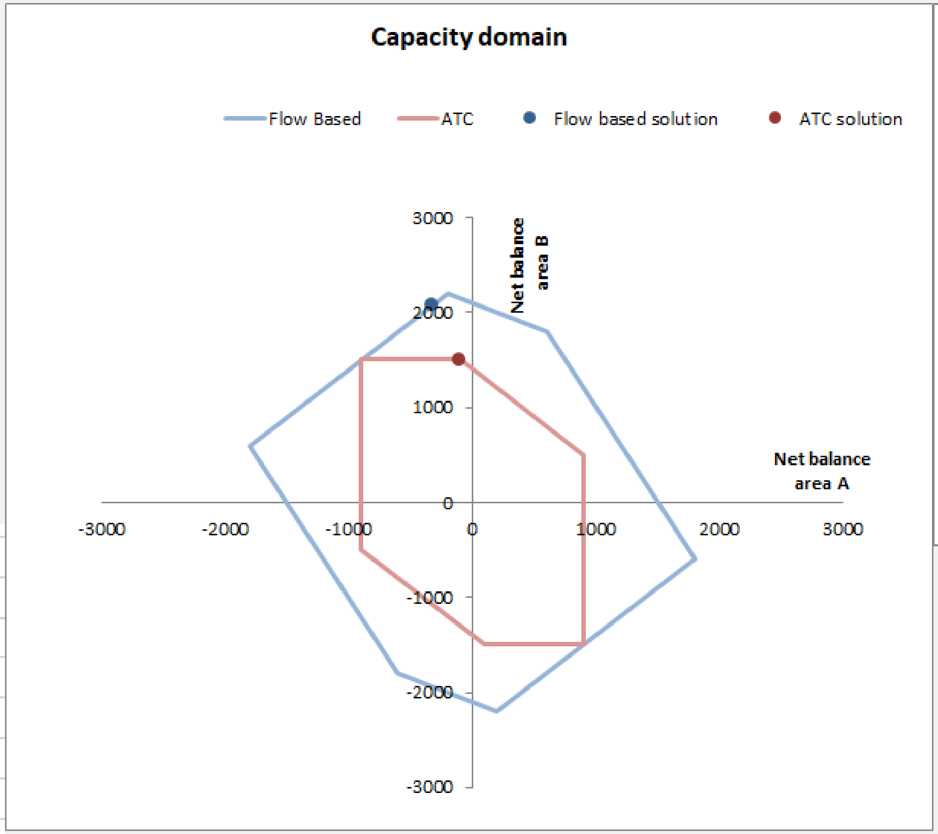
FB: B-A congested
Non-intuitive flow A-C
Global optimum

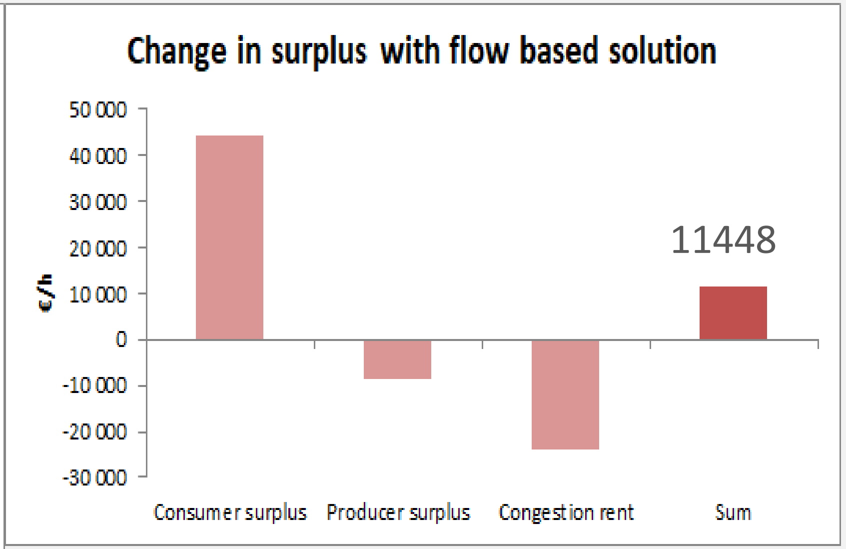


NTC: All lines congested



Marginal value of bilateral trades in FB						
A-B	B-A	B-C	C-B	A-C	C-A	Sum shadow prices
24.717	24.717	24.717	24.717	24.717	24.717	24.717





Definition of an optimal FB market equilibrium

- The first order condition for a global welfare optimum is:

$$P^i = \lambda - \sum_n \rho_n \, PTDF_n^i$$

P^i	= The price in bidding zone i
λ	= The Price in the slack node (not the system price)
ρ_n	= Shadow price of a constraining grid element n Increase in the SEW by a marginal relaxation for the constrained element n
$PTDF_n^i$	= The zone–to–slack PTDF of bidding zone i on CNE n
$PTDF_n^{ij}$	= The zone–to–zone PTDF for BZ_i - BZ_j on CNE n

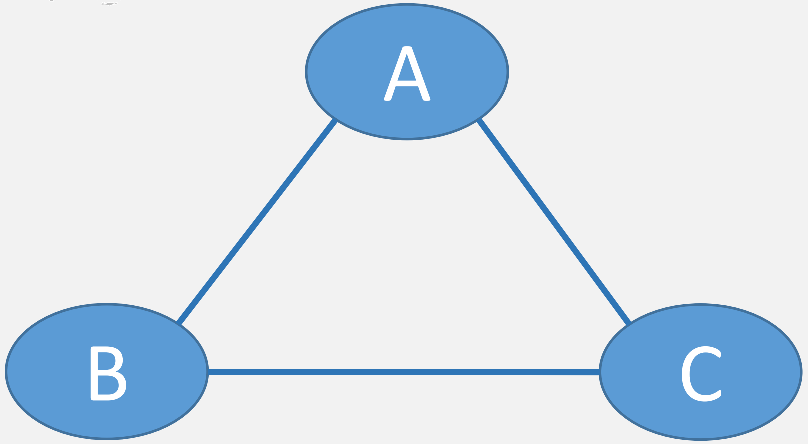
- The marginal value of a bilateral trade from BZi to BZj can be derived from the first order condition:

$$\left(P^j - P^i\right) = \sum_n \rho_n \, * \, PTDF_n^{ij}$$

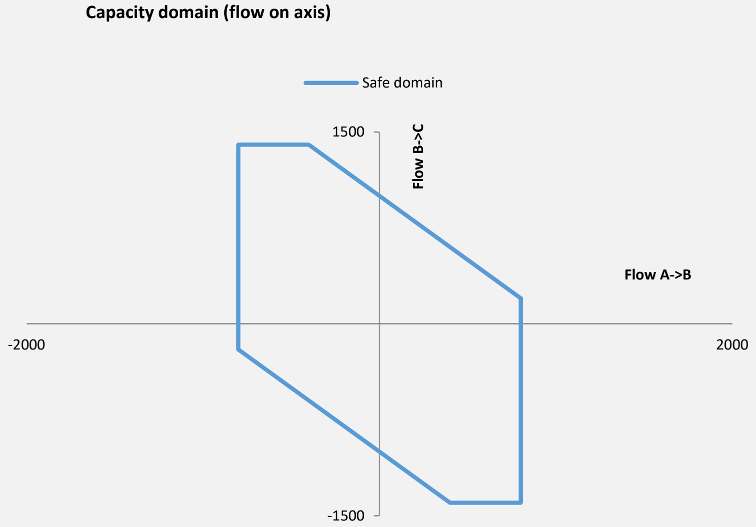
$$\rho_n \geq 0 \qquad and \qquad \rho_n\left(RAM_n - \sum_i NP_i * PTDF_n^i\right) = 0$$

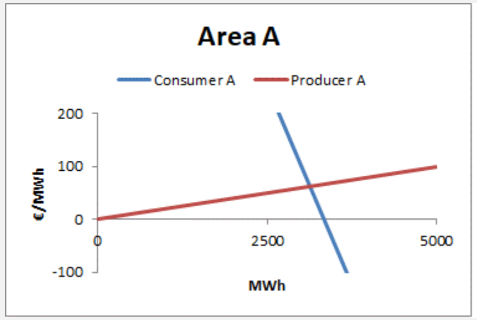
- A non-intuitive flow from high price to low price will have an exactly offsetting impact on the grid

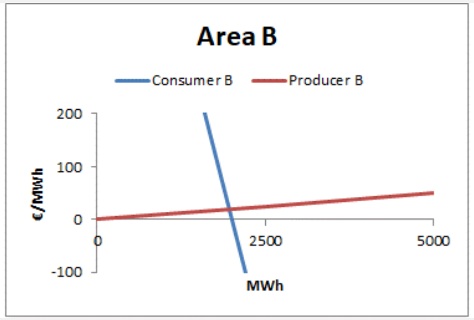
Example - Non intuitive flow

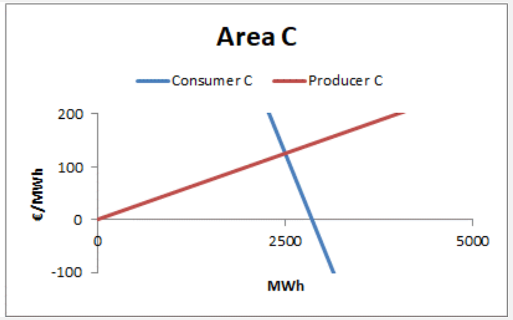


Line (CNE)	Max flow	Min flow	PTDF A	PTDF B	PTDF C
A -> B (CNE 1)	800 MW	-800 MW	33 %	- 33 %	0
B -> C (CNE 2)	1400 MW	-1400 MW	33 %	67 %	0
A -> C (CNE 3)	1000 MW	-1000 MW	67 %	33 %	0









Description of why the equilibrium is a welfare optimum, given the grid constraints and PTDFs (1/3)

To show that the equilibrium is a first best optimum we ask the question; can we re-dispatch generation and decrease total cost of generation or re-allocate power to consumers and increase consumer surplus?

Concretely what we would like to do, is to exchange more power towards area A as in A the MC and marginal WTP is €56,5 and above the other areas B and C – so we have to check if this is possible. Initially we see that the line A-B is congested, so this line is the focus for the check. One more MW from C to A will increase the load of the line A-B with:

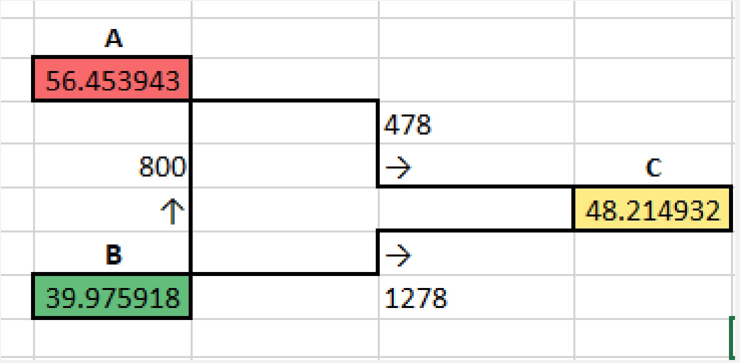
$$PTDF_{A\rightarrow B,\,A} - PTDF_{A\rightarrow B,\,C} = 33{,}3\% - 0\% = 33{,}3\% \text{ of a MW}$$

One more MW from B to A will increase the load of the line A-B with:

$$PTDF_{A\rightarrow B,\,A} - PTDF_{A\rightarrow B,B} = 33{,}3\% - (-33{,}3)\% = 67{,}7\% \text{ of a MW}$$

Both alternatives will course an overload on line B-C as this line is already congested.

As a matter of fact line A-B will be overloaded no matter which of the area B and C increase generation in order to exchange more power towards A.



Line (CNE)	Max flow	Min flow	PTDF A	PTDF B	PTDF C
A -> B (CNE 1)	800 MW	-800 MW	33 %	- 33 %	0
B -> C (CNE 2)	1400 MW	-1400 MW	33 %	67 %	0
A -> C (CNE 3)	1000 MW	-1000 MW	67 %	33 %	0

Description of why the equilibrium is a welfare optimum, given the grid constraints and PTDFs (2/3)

That the prices, flows and merit order are the social optimum can be shown by the use of math. The first order condition from the constrained optimisation problem are*:

$\boldsymbol{P_i} = \boldsymbol{SMC_i} = \lambda - \sum_i \rho_n PTDF_{ni}$

Where:

- λ is the short run marginal price at the slack or reference node (zone), also denoted SMC_n
- *PTDF* denotes Power Transfer Distribution Factor for network element *n*, and measures the change in flow on *n* from at change in netposition of node *i*, with node *i* as the slack node
- ρ_n is the shadow price of line *n* and 0 if the network element is not congested

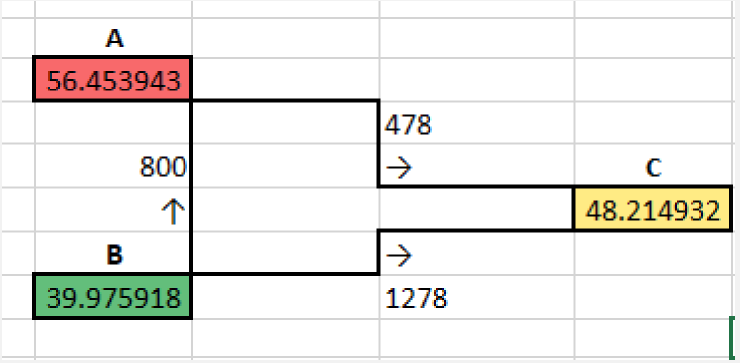
If the capacity of any line are not binding the price of all nodes will be the system marginal price and equal to λ, as the shadow prices are zero.

We can apply this to the market outcome in the figure:

$$\boldsymbol{P_A} = \boldsymbol{P_C} - \mu_{A\to B} PTDF_{A\to B,A}$$

$$\boldsymbol{P_B} = \boldsymbol{P_C} - \mu_{A\to B} PTDF_{A\to B,B}$$

As C is the slack or reference node.



Line (CNE)	Max flow	Min flow	PTDF A	PTDF B	PTDF C
A -> B (CNE 1)	800 MW	-800 MW	33 %	- 33 %	0
B -> C (CNE 2)	1400 MW	-1400 MW	33 %	67 %	0
A -> C (CNE 3)	1000 MW	-1000 MW	67 %	33 %	0

Description of why the equilibrium is a welfare optimum, given the grid constraints and PTDFs (3/3)

We can rearrange the two equations to get this condition, which shall hold for welfare optimum:

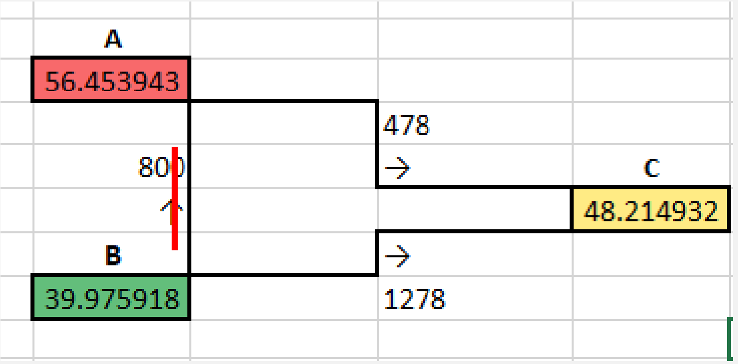
$$\frac{|P_C - P_A|}{PTDF_{A\rightarrow B,\,A}} = \frac{|P_C - P_B|}{PTDF_{A\rightarrow B,\,B}}$$

We can check that the condition is fulfilled:

$$\frac{48,21 - 56,45}{0,33} = \frac{48,21 - 39,98}{-0,33}$$

-24,7 = -24,7

The condition is fulfilled, which confirms that the prices and flows are the welfare optimal market outcome



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A -> B (CNE 1)	800 MW	-800 MW	33 %	- 33 %	0
B -> C (CNE 2)	1400 MW	-1400 MW	33 %	67 %	0
A -> C (CNE 3)	1000 MW	-1000 MW	67 %	33 %	0