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Learning to Trade Power

by

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This thesis is the result of the author's original research. It has been composed by the author and has not been previously submitted for examination which has led to the award of a degree.

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This research made extensive use of software projects by researchers from other institutions, made available as open source. Optimal power flow solvers were translated from MATPOWER, which is developed and maintained under the direction of Ray Zimmerman at Cornell University. Reinforcement learning algorithms and artificial neural networks were imported from PyBrain, which is developed by researchers from the Dalle Molle Institute for Artificial Intelligence (IDSIA) and the Technical University of Munich. The Roth-Erev learning method was translated from the Java Reinforcement Learning Module (JReLM), developed by Charles Gieseler from Iowa State University.

Abstract

Connectionist reinforcement learning methods approximating value functions offer few convergence guarantees, even in simple systems. Reinforcement learning has been applied previously to agent-based simulation of electricity markets using discrete action and sensor domains. If learning algorithms are to deliver on their potential for application in operational settings, modelling continuous domains will be necessary. The contribution of this thesis is the proof that policy-gradient reinforcement learning algorithms can be applied to continuous representations of electricity trading problems and that their superior use of sensor data results in improved overall performance, compared to previously applied value-function methods. From this it follows that learning methods which search directly in the policy space will be better suited to decision support applications and automated electric power trade.

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Chapter 1

Introduction

This thesis is a comparison of algorithms that learn to trade electric power. This chapter provides an introduction to electric power supply and wholesale electricity markets. It also explains the motivation for this research and a statement of the principle research contributions that have been made. A reading guide and outline of the remaining chapters is provided at the end.

1.1 Motivation for Electricity Market Research

The average total demand for electricity in the United Kingdom (UK) is approximately 45GW and the cost of buying 1MW for one hour is around £40 (Department of Energy and Climate Change, 2009). This equates to yearly transaction values of £16 billion. The value of electricity to society is especially apparent when supply fails. The New York black-out in August 2003 involved 61.8GW of lost power supply to approximately 50 million consumers. The majority of supplies were restored within two days, but the event is estimated to have cost more than \$6 billion and to have contributed to 11 deaths (Minkel, 2008; ICF Consulting, 2003).

Quality of life for a person is directly proportional to that person's electricity consumption (Alam, Bala, Huo, & Matin, 1991). The world population is currently 6.7 billion and forecast to pass 9 billion by the year 2050 (United Nations, 2003). Electricity production currently demands over 1/3 of the annual primary energy extracted[ref]. As people endeavour to improve their quality of life, finite primary energy fuel resources are becoming increasingly scarce. Markets are a proven economic device for efficient allocation of scarce resources.

Commercialisation of electricity supply industries is a relatively new practice, having begun in the early 1990s. The inability to store electricity, once generated, in a commercially viable quantity prevents trade as a conventional commodity. Trading mechanisms must allow shortfalls in electric energy to be purchased at short notice from quickly dispatchable generators. Various mechanisms for this have been implemented in countries and states around the world and how best to structure electricity markets is an unanswered research question. Electricity market designs are particularly complicated due to the need to manage complex dynamic constraints imposed by electric power systems.

1.2 Electric Power Systems

Generation and bulk movement of electricity in the UK takes place in a three-phase alternating current (AC) power system. Each phase is high voltage, sinusoidal electrical waveform, 120° offset in time and oscillating at a constant frequency of 50Hz. Synchronous generators (or alternators), typically rotating at 3600rpm or 1800rpm, generate apparent power S at a line voltage V_l typically between 11kV and 25kV. One of the principal reasons that alternating current, and not direct current (DC), systems are used to supply electricity is that they allow power to be transformed between voltages with very high efficiency. The apparent power conducted by a line l is the product of the line current I_l and the line voltage

$$S = \sqrt{3}V_l I_l \quad (1.1)$$

so increasing the voltage has an inverse effect on the current. Ohmic heating losses are proportional to the square of line current

$$P_r = 3I^2 R \quad (1.2)$$

where R is the resistance of the line. Hence reducing the line current dramatically reduces the heating losses. One drawback of higher voltages is the larger extent and integrity of conductor insulation required between one another, neutral and earth. This results in large transmission towers and high cable costs when undergrounding systems.

UK transmission systems operate at 400kV, 275kV or 132kV, but systems upto

and beyond 1000kV are in operation in larger countries. For transmission over very long distances or undersea, high voltage DC systems have become economically viable in recent years. The ability to transform power between voltages and transmit large quantities over long distances allows generation at high capacity stations, located away from large load centres and which offer economies of scale and lower operating costs. It also allows electricity to be transmitted across country borders and from renewable energy plant in remote locations.

For delivery to most consumers, electric energy is transferred at a substation from the transmission system to the grid supply point of a distribution system. Distribution networks are also three-phase AC systems, but operate at lower voltages and differ in their general structure or topology from transmission networks. Transmission networks are typically highly interconnected, providing several paths for power flow. Whereas distribution networks in rural areas typically consist of long radial feeders (usually overhead lines) or in urban areas consist of many ring circuits. Three-phase transformers, that step the voltage down to levels more convenient for general use (typically from 11kV or 33kV to 400V), are spaced along the branches/rings. All three-phases at 400V may be provided for industrial and commercial loads or individual phases at 230V supply typical domestic and other commercial loads. Splitting of phases is usually planned so that each is loaded equally. This produces a balanced symmetrical system that may be analysed as a single phase circuit, as explained further in Section 4.1.1. Figure 4.1.1 illustrates the basic structure of a typical national electric power system.

1.3 Electricity Markets

The UK was the first large country to privatise its electricity supply industry. The market structures that have since been adopted implement the main principles behind most electricity markets.

The England and Wales Electricity Pool was created in 1990 to break apart the monolithic Central Electricity Generating Board (CEGB) and to gradually introduce competition in generation and retail supply. Early adoption of electricity markets by the UK has led to the country hosting the main European power and gas exchanges and the UK boasts a high degree of consumer switching which is an important factor in a competitive marketplace. The Pool has since been replaced by trading

arrangements in which market outcomes are not centrally determined, but arise largely from bilateral agreements between producers and suppliers.

1.3.1 The England and Wales Electricity Pool

The Electric Lighting Act 1882 began the development of the UK's electricity supply industry by allowing persons, companies and local authorities to set up supply systems, principally at the time for the purposes of street lighting and trams. Under The Electricity Supply Act 1926 the Central Electricity Board started operating the first grid of regional networks interconnected and synchronised at 132kV, 50Hz in 1933. This began operation as a national system five years later in 1938 and was nationalised under The Electricity Act 1947 with the merger of over 600 electricity companies and the creation of the British Electricity Authority. This was then dissolved and replaced with the CEGB and the Electricity Council under The Electricity Act 1957. The CEGB was responsible for planning the network and generating sufficient electricity until the start of privatisation in 1990.

The industry was privatised under Prime Minister Margaret Thatcher and The England and Wales Electricity Pool was created in March 1990. Control of the transmission system was transferred from the CEGB to The National Grid Company, which was originally owned by twelve regional electricity companies and is now publically listed. The Pool was a multilateral contractual arrangement between generators and suppliers and did not itself buy or sell electricity. Competition in generation was introduced gradually, by entitling customers with consumption greater than or equal to 1MW (approximately 45% of the non-domestic market (Department of Energy and Climate Change, 2009)) to purchase electricity from any listed supplier. This limit was lowered in April 1994 to included customers with peak loads of 100kW or more. Finally, between September 1998 and March 1999 the market was opened to all customers.

Scheduling of generation was on a merit order basis (cheapest first) at a day ahead stage and set a wholesale electricity price for each half-hour period of the schedule day. Forecasts of total demand in MW, based on historic data and adjusted for factors such as the weather, for each settlement period were used by generating companies and organisations with interconnects to the England and Wales grid to formulate bids that had to be submitted to the grid operator by 10AM on the day before the schedule day.

Bids consisted of five price parameters, as illustrated in Figure X, and represented the avoidable cost of generation. A start-up price would also be included, representing the cost of turning on the generator from cold. A no-load price c_{noload} would equal the cost in pounds of keeping the generator running regardless of output. Three incremental prices c_1 , c_2 and c_3 specify the cost per MWh of generation between set-points p_1 , p_2 and p_3 .

A settlement computer program was used to calculate an unconstrained schedule (with no account being taken for the physical limitations of the transmission system), meeting the forecast demand and requirements for reserve while minimising cost. Cheapest bids up to the marginal point would get accepted first and the bid price from the marginal generator would generally determine the system marginal price for each settlement period. The system marginal price would determine the prices paid by consumers and paid to generators, which would be adjusted such that the costs of transmission are covered by the market and that the availability of capacity is encouraged at certain times.

Variations in demand and changes in plant availability would be adjusted for by the grid operator, producing a constrained schedule. Generators having submitted bids would be instructed to increase or reduce production appropriately. Alternatively, the grid operator could instruct large customers with contracts to curtail their demand to do so or instruct generators contracted to provide ancillary services to adjust production.

1.3.2 British Electricity Transmission and Trading Arrangements

Concerns over exploitation of market power in The England and Wales Electricity Pool and its effectiveness in reducing consumer electricity prices prompted the introduction of New Electricity Trading Arrangements (NETA) in March 2001 (Bunn & Martoccia, 2005). The aim was to improve efficiency and provide greater choice to participants. The Scottish electricity industry was integrated into the nationwide British Electricity Transmission and Trading Arrangements (BETTA) in April 2005 under The Energy Act 2004. While The Pool operated a single daily auction and dispatched plant centrally, under the new arrangements participants became self-dispatching and market positions became determined through continuous bilateral trading between generators, suppliers, traders and consumers.

The majority of power is traded under the BETTA through long-term contracts that are customised to the requirements of each party (Kirschen & Strbac, 2004). These suit participants responsible for large power plants or those purchasing large volumes of power for many customers. Considerable amounts of time and effort are required to form these long-term contracts and this has a high associated transaction cost. However, they reduce risk for large players and a degree of flexibility can be provided through option contracts.

Power is also traded directly between participants through over the counter (OTC) contracts that are usually of a standardised form. Such contracts typically concern smaller volumes of power and have much lower associated transaction costs. Often they are used by participants to refine their market position ahead of delivery time.

Trading facilities, such as power exchanges, provide a means for participants to fine-tune their positions further, through short-term transactions for relatively small quantities of energy. Modern exchanges are computerised and accept anonymous offers and bids submitted electronically. A submitted offer/bid will be paired with any outstanding bids/offers in the system with compatible prices and quantities. The details are then displayed for traders to observe and educate their decisions with.

All bilateral trading must be completed before “gate-closure” – a point in time, before delivery time, that gives the system operator an opportunity to balance supply and demand and mitigate potential breaches of system limits. In keeping with the UK’s free market philosophy, a competitive spot market (Schweppe, Caramanis, Tabors, & Bohn, 1988) is used in the balancing process. A generator that is not fully loaded may offer a price at which it is willing to increase its output by a specified quantity, stating the rate at which it is capable of doing so. Certain loads may also offer demand reductions at a price which can typically be implemented very quickly. Longer-term contracts for balancing services are also struck between the system operator and generators/suppliers in order to avoid the price volatility often associated with spot markets.

1.4 Electricity Market Simulation

The previous sections have shown the importance of electricity to modern societies and have explained how its supply is trusted to unadministered bilateral trading

arrangements. Electricity supply involves technology, money, people, natural resources and the environment. These aspects are all changing and the discipline must be constantly researched to ensure that systems such as electricity markets are fit for purpose. The value of electricity to society makes it infeasible to experiment with radical changes to trading arrangements on real systems. A practical alternative is to create an abstract mathematical model with a set of simplifying approximations and assumptions and find analytical solutions by simulating the model using computer programs.

Game theory is the branch of applied mathematics in which behaviour in strategic situations is captured. A common approach to doing this is to model the system and players as a mathematical optimisation problem. Section 2.1 defines the optimal power flow problem, which is a classic optimisation problem in the field of electric power Engineering. Electricity markets are commonly modelled using variations on the optimal power flow problem with player strategies integrated[ref]. This thesis concerns *agent-based* simulation, which is an alternative approach to the mathematics of games.

1.4.1 Agent-Based Simulation

Social systems, such as electricity markets, are inherently complex and involve interactions between different types of individuals and between individuals and collective entities, such as organisations or groups, the behaviour of which is itself the product of individual interactions. This complexity drives classical monolithic equilibrium models to their limits. Models are often highly stylised and limited to small numbers of players with strong constraining assumptions made on their behaviour.

Agent-based simulation involves modelling simultaneous operations and interactions between adaptive agents and assessing their effect on the system as a whole. Macro-level system properties arise from agent interactions, even those with simple behavioural rules, that could not be deduced by simply aggregating the agent's properties.

Following (Tesfatsion & Judd, 2006), the objectives of agent-based modelling research fall roughly into four strands: empirical, normative, heuristic and methodological. The *empirical* objectives are to understand how and why macro-level regularities have evolved from micro-level interactions when little or no top-down control is present. Research with *normative* goals aims to relate agent-based models to an

ideal standard or optimal design. The objective being to evaluate proposed designs for social policy, institutions or processes in their ability to produce socially desirable system performance. The *heuristic* strand aims to generate theories on the fundamental causal mechanisms in social systems that can be observed, even in simple systems, when there are alternative initial conditions. This thesis has the goal of providing *methodological* advancement to the field. Improvements in the tools and methods available aid research with the former objectives.

1.5 Problem Statement and Hypothesis

In an electricity market environment, as in most operational settings, the state and action spaces have many dimensions and are mostly continuous in nature. Furthermore, certain state information, such as a demand forecast, exhibits a degree of uncertainty and other information, such as a competitor’s bid, is hidden.

The traditional value-function based reinforcement learning methods, defined in Section 2.2 below, offer few convergence guarantees in partially observable Markov decision processes[ref]. Without the use of value function approximation techniques these methods are restricted by Bellman’s Curse of Dimensionality (Bellman, 1961) and can not be applied to complex problems with high-dimensional state and actions space. With value function approximation, feedback between policy updates and value function changes can result in oscillations or divergence in these methods (Peters & Schaal, 2008).

Policy gradient reinforcement learning methods, defined in Section 2.2.3 below, do not suffer in the same way from many of the problems that mar value-function based methods in high-dimensional domains. They offer strong convergence guarantees, do not require that all states be visited and work with state and action spaces that are continuous, discrete or mixed. Policy performance may be degraded by uncertainty in state data, but the learning methods need not be altered. Policy gradient methods have been successfully applied in many operational settings (Sutton, McAllester, Singh, & Mansour, 2000; Peters & Schaal, 2006; Moody & Saffell, 2001; Peshkin & Savova, 2002).

It is proposed that agents which learn using policy gradient methods may outperform those using value function based methods in a simulated competitive electricity trading environment. Policy methods may learn faster, achieve greater

profitability and exploit constraints in the power system.

1.6 Research Contributions

The research presented in this thesis pertains to the academic fields of Electric Power Engineering, Artificial Intelligence and Economics. The principle contributions made by this thesis in these fields are:

- The proof that policy gradient reinforcement learning algorithms outperform value-function algorithms when applied to the power trade problem,
- A novel coupling of power system models and optimal power flow algorithm results with agents capable of handling discrete and continuous sensor and action spaces,
- Implementations of Roth-Erev reinforcement learning algorithms and continuous versions of Q-learning and $Q(\lambda)$ for the open source PyBrain library,
- Open source implementations of power flow and optimal power flow algorithms in the Python programming language, preserving sparsity throughout the optimisation using the open source CVXOPT library.

1.7 Reader's Guide and Thesis Outline

This thesis applies standard and advanced reinforcement learning methods in the domain of electric power trade. The reader will require a certain degree of prior knowledge, or must be willing to read Chapter 2 and much of the referenced material, to fully understand the methodology taken. This thesis is written for several kinds of readers. A student who has taken an energy economics class or two may appreciate it as an introduction to electricity markets and their simulation. Research students embarking upon postgraduate study of electricity markets may find the ideas for further work in Section 8.2 of particular interest. Researchers experienced in adaptive control and machine learning, looking for new application domains for their methods, may find the electricity market model definition in Chapter 4 to be of value.

The presentation is organised into nine chapters. Chapter 2 provides a simple introduction to the theories of optimal power flow and reinforcement learning which

underpin the later research. This research is described in the context of related work from the fields of Power Engineering, Machine Learning and Computer Science in Chapter 3. Chapter 4 defines the electricity market model, based on optimal power flow, and a multi-agent system used to coordinate simulated electricity trade. Reinforcement learning methods are compared in a series of experiments in Chapter 5. Finally, a summary of conclusions drawn from this research is given in 8 along with several ideas for building upon the tools developed.

Chapter 2

Background Theory

This chapter provides an introduction to optimal power flow and reinforcement learning. The methods described are used in Chapter 4 below to model electricity markets and market participant behaviour. Optimal power flow is one of the most widely studied subjects in electric power Engineering and a comprehensive literature review is available in (Momoh, Adapa, & El-Hawary, 1999; Momoh, El-Hawary, & Adapa, 1999). For detailed definitions and analysis reinforcement learning methods the interested reader is referred to (Sutton & Barto, 1998; Bertsekas & Tsitsiklis, 1996).

2.1 Optimal Power Flow

Nationalised electricity supply industries are typically planned operated and controlled centrally. A system operator determines which generators must operate and the required output of the operating units such that demand and reserve requirements are met and the overall cost of production is minimised. In electric power Engineering, this is termed the *unit commitment* and *economic dispatch* problem.

In 1962 a unit commitment formulation was published with network constraints included (Carpentier, 1962). *Optimal power flow* is this integration of economic and power flow aspects of power systems into a mathematical optimisation problem. Its ability to solve centralised power system operation problems and determine prices in power pool markets has led to optimal power flow being one of the most widely studied subjects in the power systems community.

2.1.1 Power Flow Formulation

Optimal power flow derives its name from the *power flow*, or load flow, steady-state power system analysis technique. Given sets of generator data, load data and a nodal admittance matrix Y_{bus} , a power flow study determines the voltage

$$V_i = |V_i| \angle \delta_i = |V_i| (\cos \delta_i + j \sin \delta_i) \quad (2.1)$$

at each node i in the power system (Grainger & Stevenson, 1994). Y_{bus} describes the electrical network and its formulation is dependant upon the transmission line, transformer and shunt models employed¹. Importantly, the relationship between nodal voltages and power entering the network is non-linear. For a network of n_b nodes, the current injected at node i is

$$I_i = \sum_{j=1}^{n_b} Y_{ij} V_j \quad (2.2)$$

where $Y_{ij} = |Y_{ij}| \angle \theta_{ij}$ is the $(i, j)^{th}$ element of the, $n_b \times n_b$, Y_{bus} matrix. Hence, the apparent power entering the network at bus i is

$$S_i = P_i + jQ_i = V_i I_i^* = \sum_{j=1}^{n_b} |Y_{ij} V_i V_j| \angle (\delta_i - \delta_j - \theta_{ij}) \quad (2.3)$$

Converting to polar coordinates and separating the real and imaginary parts, the active power

$$P_i = \sum_{j=1}^{n_b} |Y_{ij} V_i V_j| \cos(\delta_i - \delta_j - \theta_{ij}) \quad (2.4)$$

and the reactive power entering the network

$$Q_i = \sum_{j=1}^{n_b} |Y_{ij} V_i V_j| \sin(\delta_i - \delta_j - \theta_{ij}) \quad (2.5)$$

at bus i are non-linear functions of V_i , as indicated by the presence of the sine and cosine terms. Kirchoff's Current Law requires that the net complex power injection (generation - load) at each bus equals the sum of complex power flows on each branch

¹The Y_{bus} formulation used in this thesis is defined in Section 4.1.2.

connected to the bus. The power balance equations

$$P_g^i - P_d^i = P^i \quad (2.6)$$

and

$$Q_g^i - Q_d^i = Q^i \quad (2.7)$$

where the subscripts g and d indicate generation and demand respectively, form a key constraint in the optimal power flow problem.

2.1.2 Optimal Power Flow Formulation

Optimal power flow is a mathematical optimisation problem in which the complex power balance equations (2.6) and (2.7) must be satisfied. Optimisation problems have the general form

$$\min_x f(x) \quad (2.8)$$

subject to

$$g(x) = 0 \quad (2.9)$$

$$h(x) \leq 0 \quad (2.10)$$

where x is the optimisation variable, f is the objective function and equations (2.9) and (2.10) are sets of equality and inequality constraints on x , respectively. Typical inequality constraints are bus voltage magnitude contingency state limits, generator output limits and branch power or current flow limits. The optimisation variable x may be made up of generator set-points, bus voltages, transformer tap settings etc. If the optimisation variable x is empty then the formulation reduces to a power flow problem as described in Section 2.1.1, above.

A common objective of optimal power flow is total system cost minimisation. For a network of n_g generators the objective function is

$$\min \sum_{k=1}^{n_g} C_k(P_{g,k}) \quad (2.11)$$

where C_k is a cost function (typically quadratic) of the set-point $P_{g,k}$ for generator k . Alternative objectives may be to minimise losses, maximise the voltage stability

margin or minimise deviation of an optimisation variable from a particular schedule.

2.1.3 Interior-Point Methods

2.2 Reinforcement Learning

Reinforcement learning is learning from reward by mapping situations to actions when interacting with an uncertain environment (Sutton & Barto, 1998). An agent learns *what* to do in order to achieve a task through trial-and-error using a numerical reward or penalty signal without being instructed *how* to achieve it. In challenging cases, actions may not yield immediate reward or may affect the next situation and all subsequent rewards. A compromise must be made between exploitation of past experiences and exploration of the environment through new action choices. A reinforcement learning agent must be able to:

- sense aspects of its environment,
- take actions that influence its environment and,
- have an explicit goal or set of goals relating to the state of its environment.

In the classical model of agent-environment interaction, at each time step t in a sequence of discrete time steps $t = 1, 2, 3 \dots$ an agent receives as input some form of the environment's state $s_t \in \mathcal{S}$, where \mathcal{S} is the set of possible states. From a set of actions $\mathcal{A}(s_t)$ available to the agent in state s_t , the agent selects an action a_t and performs it upon its environment. The environment enters a new state s_{t+1} in the next time step and the agent receives a scalar numerical reward $r_{t+1} \in \mathbb{R}$ in part as a result of its action. The agent then learns from the state representations s_t and s_{t+1} , the chosen action a_t and the reinforcement signal r_{t+1} before beginning its next interaction. Figure X diagrams the agent-environment interaction event sequence.

2.2.1 Markov Decision Processes

For a finite number of states \mathcal{S} , if all states are Markov, the agent interacts with a finite Markov decision process (MDP). Informally, for a state to be Markov it must retain all relevant information about the complete sequence of positions leading up to the state, such that all future states and expected rewards can be predicted as well as would be possible given a complete history. A particular MDP is defined for a discrete set of time steps by a state set \mathcal{S} , an action set \mathcal{A} , a set of state transition probabilities \mathcal{P} and a set of expected reward values \mathcal{R} . Given a state s and an action

a , the probability of transitioning to each possible next state s' is

$$\mathcal{P}_{ss'}^a = \Pr\{s_{t+1} = s' | s_t = s, a_t = a\}. \quad (2.12)$$

Given the next state s' , the expected value of the next reward is

$$\mathcal{R}_{ss'}^a = E\{r_{t+1} | s_t = s, a_t = a, s_{t+1} = s'\}. \quad (2.13)$$

In practice not all state signals are Markov, but should provide a good basis for predicting subsequent states, future rewards and selecting actions.

If the state transition probabilities and expected reward values are not known, only the states and actions, then samples from the MDP must be taken and a value function approximated iteratively based on new experiences generated by performing actions.

2.2.2 Value Function Methods

Any method that can optimise control of a MDP may be considered a reinforcement learning method. All search for an optimal policy π^* that maps state $s \in \mathcal{S}$ and action $a \in \mathcal{A}$ to the probability $\pi^*(s, a)$ of taking a in s and maximises the sum of rewards over the agents lifetime.

Each state s under policy π may be associated with a *value* $V^\pi(s)$ equal to the expected return from following policy π from state s . Most reinforcement learning methods are based on estimating the state-value function

$$V^\pi(s) = E\left\{\sum_{t=0}^{\infty} \gamma^t r_t \middle| s_0 = s\right\} \quad (2.14)$$

where γ is a discount factor, with $0 \leq \gamma \leq 1$. Performing certain actions may result in no state change, creating a loop and causing the value of that action to be infinite for certain policies. The discount factor γ prevents values from going unbounded and represents reduced trust in the reward r_t as discrete time t increases. Many reinforcement learning methods estimate the action-value function

$$Q^\pi(s, a) = E\left\{\sum_{t=0}^{\infty} \gamma^t r_t \middle| s_0 = s, a_0 = a\right\} \quad (2.15)$$

which defines the value of taking action a in state s under fixed policy π .

Temporal-Difference Learning

Temporal Difference (TD) learning is a central idea in reinforcement learning. TD methods do not attempt to estimate the state transition probabilities and expected rewards of the finite MDP, but estimate the value function directly. They learn to *predict* the expected value of total reward returned by the state-value function (2.14). For an exploratory policy π and a non-terminal state s , an estimate of $V^\pi(s_t)$ at any given time step t is updated using the estimate at the next time step $V^\pi(s_{t+1})$ and the observed reward r_{t+1}

$$V^\pi(s_t) \leftarrow V^\pi(s_t) + \alpha[r_{t+1} + \gamma V^\pi(s_{t+1}) - V^\pi(s_t)] \quad (2.16)$$

where α is the learning rate, with $0 \leq \alpha \leq 1$, which controls how much attention is paid to new data when updating V^π . TD learning evaluates a particular policy and offers strong convergence guarantees, but does not learn better policies.

Sarsa

Sarsa (or modified Q-learning) is an on-policy TD control method that approximates the state-action value function in (2.15). Recall that the state-action value function for an agent returns the total expected reward for following a particular policy for selecting actions as a function of future states. The function is updated according to the rule

$$Q(s_t, a_t) \leftarrow Q(s_t, a_t) + \alpha[r_{t+1} + \gamma Q(s_{t+1}, a_{t+1}) - Q(s_t, a_t)] \quad (2.17)$$

This update also uses the action from the next time step a_{t+1} and the requirement to transition through state-action-reward-state-action for each time step derives the algorithm's name. Sarsa is referred to as an on-policy method since it learns the same policy that it follows.

Q-Learning

Q-learning is an off-policy TD method that again does not estimate the finite MDP directly, but alternatively iteratively approximates the state-action value function

which returns the value of taking action a in state s and taking the maximum across all actions, following an *optimal* policy thereafter. The same theorems used in defining the TD error also apply for state-action values.

$$Q(s_t, a_t) \leftarrow Q(s_t, a_t) + \alpha [r_{t+1} + \gamma \max_a Q(s_{t+1}, a) - Q(s_t, a_t)] \quad (2.18)$$

The function is independent of the policy being followed and only requires that all state-action pairs are continually updated.

Eligibility Traces

With the TD methods described above, only the value for the immediately preceding state or state-action pair is updated at each time step. The prediction $V(s_{t+1})$ also provides information concerning earlier predictions and TD methods can be extended to update a set of values at each step. An eligibility trace $e(s)$ represents how eligible the state s is to receive credit or blame for the TD error δ . Recall, that for state-value prediction

$$\delta = r + \gamma V(s') - V(s) \quad (2.19)$$

When extended with eligibility traces TD methods update values for all states

$$\Delta V_t(s) = \alpha \delta_t e_t(s) \quad (2.20)$$

For the current state $e(s) \leftarrow e(s) + 1$ and for all states the eligibility traces is attenuated by a factor λ , $e(s) \leftarrow \gamma \lambda e(s)$, from which the extended TD methods TD(λ), Q(λ) and Sarsa(λ) derive their names. For $\lambda = 0$ only the preceding value is updated, as in the unextended definitions, and for $\lambda = 1$ all preceding state-values or state-action values are updated equally.

Action Selection

2.2.3 Policy Gradient Methods

Value function based methods have been successfully applied with discrete lookup table parameterisation to many problems []. However, the number of discrete states required increases exponentially as the dimensions of the state space increase if all possibly relevant situations are to be covered and these methods become subject to

Bellman’s Curse of Dimensionality (Bellman, 1961). Value function based methods can be used in conjunction with function approximators, artificial neural networks are popular, to work with continuous state and action space. However, when used with value function approximation they have been shown to offer poor convergence and even divergence characteristics, even in simple systems.

These convergence problems have motivated research into policy gradient methods which make small incremental changes to the parameters θ of a policy function approximator. With artificial neural networks, the parameters being the weights of the network connections. Policy gradient methods update θ in the direction of the gradient of some policy performance measure Y with respect to the parameters

$$\theta_{i+1} = \theta_i + \alpha \frac{\partial Y}{\partial \theta_i} \quad (2.21)$$

where α is a positive definite step size learning rate.

Aswell as working with continuous state and actions space, policy gradient methods offer strong convergence guarantees, do not require all states to be continually updated and although uncertainty in state data can degrade policy performance, the techniques need not be altered.

Policy gradient methods are differentiated largely by the techniques used to obtain an estimate of the policy gradient $\frac{\partial Y}{\partial \theta}$. The most successful real-world robotics results have been yielded using REINFORCE likelihood ratio methods (Williams, 1992) and natural policy gradient methods such as Natual Actor-Critic (Peters & Schaal, 2008).

2.2.4 Roth-Erev Method

The Roth-Erev reinforcement learning algorithm uses a stateless policy to select actions from a discrete domain (Roth et al., 1995; Erev & Roth, 1998). The dataset stored by each agent, j , contains an array of length K , where K is the number of feasible actions k . Each value in the array represents the propensity for selection of the associated action in all states of the environment. Following interaction t in which agent j performed action k' on its environment, for arbitrary positive t , a reward $r_{jk'}(t)$ is calculated. The propensity for agent j to select action k for interaction $t+1$

is

$$q_{jk}(t+1) = \begin{cases} (1 - \phi)q_{ik}(t) + r_{jk'}(t)(1 - \epsilon), & k = k' \\ (1 - \phi)q_{ik}(t) + r_{jk'}(t)(\frac{\epsilon}{K-1}), & k \neq k' \end{cases} \quad (2.22)$$

where ϕ and ϵ denote *recency* and *experimentation* parameters, respectively. The recency (forgetting) parameter degrades the propensities for all actions and prevents the values from going unbounded. It is intended to represent the tendency for players to forget older action choices and to prioritise more recent experience. The experimentation parameter prevents the probability of choosing an action from going to zero and encourages exploration of the action space.

Erev and Roth proposed that actions be selected according to a discrete probability distribution function where action k is selected for interaction $t + 1$ with probability:

$$p_{jk}(t+1) = \frac{q_{jk}(t+1)}{\sum_{l=0}^K q_{jl}(t+1)} \quad (2.23)$$

Since $\sum_{l=0}^K q_{jl}(t+1)$ increases with t , a reward $r_{jk}(t)$ for performing action k will have a greater effect on the probability $p_{jk}(t+1)$ during early interactions while t is small. This is intended to represent Psychology's *Power Law of Practice* in which it is qualitatively stated that, with practice, learning occurs at a decaying exponential rate and that a learning curve will eventually flatten out.

This algorithm may alternatively use a form of the *softmax* method (Sutton & Barto, 1998) using the Gibbs, or Boltzmann, distribution to select action k for the $t + 1$ th interaction with probability

$$p_{jk}(t+1) = \frac{e^{q_{jk}(t+1)/\tau}}{\sum_{l=0}^K e^{q_{jl}(t+1)/\tau}} \quad (2.24)$$

where τ is the *temperature* parameter. This parameter may be lowered in value over the course of an experiment since high values give all actions similar probability and encourage exploration of the action space, while low values promote exploitation of past experience.

Variant Roth-Erev Method

Two shortcomings of the basic Roth-Erev algorithm have been identified and a variant formulation proposed (Nicolaisen, Petrov, & Tesfatsion, 2002). The two issues

are

- The values by which propensities are updated can be zero or very small for certain combinations of the experimentation parameter ϵ and the total number of feasible actions K and
- all propensity values are decreased by the same amount when the reward, $r_{jk'}(t)$ is zero.

With the variant algorithm, the propensity of agent j to select action k for interaction $t + 1$ is:

$$q_{jk}(t+1) = \begin{cases} (1 - \phi)q_{ik}(t) + r_{jk'}(t)(1 - \epsilon), & k = k' \\ (1 - \phi)q_{ik}(t) + q_{jk}(t)(\frac{\epsilon}{K-1}), & k \neq k' \end{cases} \quad (2.25)$$

As with the basic Roth-Erev algorithm, the propensity for selection of the action that the reward is associated with is adjusted by the experimentation parameter. All other action propensities are adjusted by a small proportion of their current value.

Chapter 3

Related Work

This thesis concerns methodological advancement in the field of agent-based electricity market simulation. This chapter describes the research in the context of similar work with particular emphasis on the methods employed. The bulk of the review focuses upon agent-based simulation with decision models based upon reinforcement learning. However, simulations applying alternative methods, such as genetic algorithms and learning classifier systems, are also surveyed. In the interests of repeatability, the software developed for this thesis has been released as open source and the project is described in the context of other open source electric power engineering tools.

3.1 Policy Gradient Reinforcement Learning

Direct policy search reinforcement learning methods have been successfully applied to financial decision making problems. It is more common for supervised learning techniques to be trained on sample data and used to minimise errors in price forecasts. However, in (Moody, Wu, Liao, & Saffell, 1998) a recurrent reinforcement learning method is used to optimise investment performance without forecasting prices. The method is recurrent as it uses information related to past decisions as input. The authors compare using direct profit and the Sharpe ratio (Sharpe, 1966, 1994) as a reward signal. The Sharpe ratio is a measure of risk adjusted return defined as

$$S_t = \frac{\text{Average}(R_t)}{\text{Standard Deviation}(R_t)} \quad (3.1)$$

where R_t is the return for period t .

The trading system parameters θ are updated in the direction of the steepest ascent of the gradient of some performance function U_t with respect to θ

$$\Delta\theta_t = \rho \frac{dU_t(\theta_t)}{d\theta_t} \quad (3.2)$$

where ρ is the learning rate. Direct profit is the simplest performance function defined, but assumes traders are insensitive to risk. Investors being, in general, sensitive to losses are willing to sacrifice potential gains for reduced risk of loss. To allow on-line learning and parameter updates at each time period, the authors define a *differential* Sharpe ratio. By maintaining an exponential moving average of the Sharpe ratio, the need to compute return averages and standard deviations for the entire trading history at each period is avoided. Alternative performance ratios including the *information ratio*, *appraisal ratio* and *Sterling ratio* are mentioned.

Simulations are conducted using artificial price data, equivalent to one year of hourly trade in a 24-hour market, and 45 years of monthly data from the Standard & Poor (S&P) 500 index and 3 month Treasury Bill (T-Bill) data. In a portfolio management simulation, in which trading systems invested proportions of their wealth among three different securities, it was shown that trading systems maximising the differential Sharpe ratio produced more consistent results and achieved higher risk adjusted returns than those trained to simply maximise profit. This result is interesting as the majority of applications of reinforcement learning to electricity market simulation use profit as a reward signal and may benefit from using measures of risk adjusted return.

In (Moody & Saffell, 2001) the recurrent reinforcement learning method from (Moody et al., 1998) is contrasted with value function based approaches. In addition to the Sharpe ratio, the *Downside Deviation* ratio is described and may also be of use in electricity market simulation. Simulation results from trading systems trained on half-hourly USD/GBP foreign exchange rate data and again learning switching strategies between the S&P 500 stock index and T-Bills are presented. The results show that the recurrent reinforcement learning method outperforms the Q-learning in the S&P 500/T-Bill allocation problem. The authors also observe that the recurrent reinforcement learning method has a simpler functional form, the output is not discrete and easily maps to real valued actions and that the algorithm is more robust to noise in financial data and adapts quickly to non-stationary environments.

In (Vengerov, 2008) a marketplace for computational resources is envisioned. The authors propose a market in which grid service suppliers offer to execute jobs submitted by customers for a price per CPU-hour. The problem formulation requires customers to request a quote for computing a job k for a time τ_k on n_k CPUs. The quote returned specifies a price P_k at which the k would be charged and a delay time d_k for the job. The service provider's goal is to learn a policy for pricing quotes that maximises long term revenue when competing in a market environment with other providers. A differentiated pricing model is implemented where a standard service is priced at 1 \$/CPU-hour and a premium service at P \$/CPU-hour, with premium jobs prioritised over standard jobs. The state of the market environment is defined by the current expected delays in the standard and premium service classes and the product of the number of CPUs requested and the job execution time, $n_k\tau_k$. The reward $r(s, a)$ for action a in state s is the total price paid for the job. The policy gradient method employed is a modified version of Williams' REINFORCE where

$$Q(s_t, a_t) = \sum_{t=1}^T r(s_t, a_t) - \bar{r}_t \quad (3.3)$$

and \bar{r}_t is the current average reward.

The authors recognise that their grid market model could be applied to any multi-seller retail market environment. The experimental results show that if all grid service providers simultaneously use the learning algorithm then the process converges to a Nash equilibrium. The results also showed that significant increases in profit were possible by offering both standard and premium services.

3.2 Simulations Applying Q-learning

Agent-based simulation of electricity markets has been researched with participants behavioral aspects modelled using Q-learning methods. The most prominent work in which this method has been adopted has been conducted at the Swiss Federal Institutes of Technology in Zurich and Lausanne. The foundations for this were laid in (Krause et al., 2004) with a comparison of agent-based modelling using reinforcement learning with Nash equilibrium analysis in assessing network constrained power pool market dynamics. Parameter sensitivity of comparison results were later analysed in (Krause et al., 2006).

In the papers a mandatory spot market is modelled and cleared using a DC optimal power flow formulation. A five bus power system model is defined with three generators and four inelastic and constant loads. Linear marginal cost functions

$$C_{g,i}(P_{g,i}) = b_{g,i} + s_{g,i}P_{g,i} \quad (3.4)$$

are assumed for each generator i where $P_{g,i}$ is the active power output, $s_{g,i}$ is the slope of the cost function and $b_{g,i}$ is the cost when $P_{g,i} = 0$. Suppliers are given the option to markup their bids to the market not by increasing the slope, but by increasing $b_{g,i}$ by 10%, 20% or 30%. A price cap of \$60/MW is set, but may not be exceeded by any of the available markups.

Nash equilibrium of the market is computed by clearing the market for all possible markup combinations and determining the actions for which no player is motivated to deviate from as it would result in a decrease in expected reward. Experiments are conducted in which there is a single Nash equilibrium and two equilibria.

An ϵ -greedy strategy is applied for action selection and a stateless action value function is updated at each time step t according to

$$Q(a_t) \leftarrow Q(a_t) + \alpha(r_{t+1} - Q(a_t)) \quad (3.5)$$

where α is the learning rate. Further to (Krause et al., 2004), simulations with discrete sets of values for the parameters α and ϵ were carried out in (Krause et al., 2006). While parameter variations affected the frequency of equilibrium oscillations, Nash equilibrium was still approached and the oscillatory behaviour observed for almost all combinations.

The significance of this research is that it verifies that the agent-based approach settles at the same theoretical optimum as with closed-form equilibrium approaches and that exploratory policies result in the exploitation of multiple equilibria if they exist.

Having validated the suitability of an agent-based, bottom-up, approach to assessing evolution of market characteristics, the authors applied the technique in a comparison of congestion management schemes (Krause & Andersson, 2006). The first scheme considered was *locational marginal pricing*, or nodal pricing, where congestion is managed by optimising the output of generators with respect to maximum social welfare. Loading of branches to their flow limits results in non-uniform nodal

marginal prices. A nodal marginal price equals the increase in the total system cost (the value of the objective function) when generation at that node is increased by 1MW. These prices are commonly used in electricity market analysis as they may be determined from the Lagrangian multipliers on the active power balance constraints in the optimal power flow formulation. The second scheme considered, named *market splitting*, is similar to locational marginal pricing, but the system gets subdivided into zones within which the nodal prices are uniform. The final *flow based market coupling* scheme also uses uniform zonal pricing, but requires a simplified representation of the network. Power flows within zones are not represented and all lines within zones are aggregated into one equivalent interconnector.

In a simpler alternative to the conventional DC optimal power flow formulation, the computation of line power flows is done using a matrix power transfer distribution factors. The $(i, j)^{th}$ element of this matrix corresponds to the change in active power flow on line j given an additional injection of 1MW at the slack bus and corresponding withdrawal of 1MW at node i .

The congestion management schemes are evaluated under perfect competition, where suppliers bid at marginal cost, and under oligopolistic competition, in which markups of 5% and 10% may be added to marginal cost. The benefits obtained between reward at marginal cost and a maximum markup are used to assess market power. The experimental results show different market power allocations under the three constraint management schemes. The significance of this work is that it demonstrates an agent-based model being applied to an important problem in the electricity supply industry.

The same Q-learning method is used in (Kienzle, Krause, Egli, Geidl, & Andersson, 2007) to analyse strategic behaviour in integrated electricity and gas markets. Again, power flow are modelled using a power transfer distribution matrix. Pipeline losses in the gas network are approximated using using a cubic function of the flow. Three combined gas and electricity models are compared. In the first model, operators of gas-fired power plant submit separate bid functions for gas and electricity. Bids are then cleared as a single optimisation problem. In model two, operators submit one offer for their capacity to convert gas to electricity. In the final model, bids are submitted only to the electricity market, after which gas is purchased regardless of price. Gas supply offers are modelled as a linear function with no strategic involvement. The models are compared in terms of social welfare using a three bus power system model with three non-gas-fired power plants and one gas-fired plant.

The experimental results show little difference between electricity prices and social welfare prices between the models.

However, this research illustrates the interest in and complexity associated with modelling relationships between markets. The authors recognise the need for further and more detailed simulation in order to improve evaluation of market coupling models.

Researchers at the Argonne National Laboratory have published results from a preliminary study of interactions between *emission* and electricity markets (J. Wang, Koritarov, & Kim, 2009). A cap-and-trade system for emissions is modelled where generator companies are allocated with CO₂ allowances that may subsequently be traded. Generator companies are assumed to be price takers in the emissions market and to have negligible influence on market clearing prices. Prices for allowances from the European Energy Exchange were used. Whereas in the electricity market, an oligopoly is assumed and bids are cleared using a DC optimal power flow formulation. To improve selection of the ϵ parameter for exploratory action selection, a simulated annealing (SA) Q-learning method based on the Metropolis criterion is used (Guo, Liu, & Malec, 2004). Under this method ϵ is changed at each simulation step to allow solutions to escape from local optima. A two bus system is used to study cases in which, allowance trading is not used, allowances can be exchanged in the emission market and with variations in the allowance allocations.

A one year, hourly load profile with a summer peak is used to represent changes in demand. The electricity market is cleared each hour and the emissions market at the end of each simulated week. The agents learn, when they have a deficit of allowances, to borrow future allowances in the summer when load and allowance prices are high. Conversely, when they have a surplus they learn to sell at this time. In the third case, the authors show the sensitivity of profits to initial allocations and conclude that the experimental results can not be generalised. The authors cite further model validation and agent learning method improvements as necessary future work.

The SA-Q-learning method is also used by researchers from the University of Thessaloniki in (Tellidou & Bakirtzis, 2007) to study capacity withholding and tacit collusion among electricity market participants. A mandatory spot market is implemented, where bid quantities may be less than net capacity and bid prices may be marked up upon marginal cost by increasing the slope of a linear cost function. Again market clearing is achieved using DC optimal power flow and locational marginal

prices are used to calculate profits and reinforce the learning process. Demand is assumed to be inelastic and transmission system parameters constant between simulation periods. A simple two node power system model with two generators is used in three test cases. In a reference case each generator bids full capacity at marginal cost. In the second case, generators bid quantities in steps of 10MW and price markups in steps of €2/MWh. In the final case the same generation capacity is split among eight identical generators to increase the level of competition. the experimental results show that generators learn to withhold capacity and develop tacit collusion strategies to capture congestion profits.

The convergence to Nash equilibrium shown in (Krause et al., 2004) is confirmed in (Naghibi-Sistani, Akbarzadeh-T., Javidi-D.B., & Rajabi-Mashhadi, 2006). Boltzman (soft-max) exploration is used for action selection with the temperature parameter adjusted during the simulations. A modified version of the IEEE 30 bus test system is used with the number of generators reduced from nine to six. No optimal power flow formulation or details of the reward signal are provided. Generators are given a three step action space where the slope of a linear supply function may be less than, equal to or above marginal cost. The experimental results show that with temperature parameter adjustment Nash equilibrium is achieved and oscillation associated with ϵ -greedy action selection are avoided.

3.3 Simulations Applying Roth-Erev

A reinforcement learning method based on empirical results obtained from observing how humans learn decision making strategies in games against multiple strategic players has received considerable attention from the agent-based electricity market simulation community (Roth et al., 1995; Erev & Roth, 1998).

In (Nicolaisen et al., 2002) an agent-based model of a wholesale electricity market with both supply and demand side participation is constructed. It is used to study market power and short-run market efficiency under discriminatory pricing through systematic variation of concentration and capacity conditions. To model the power system, each trader is assigned values of available transmission capability (ATC) with respect to each other trader. Offers from buyers and sellers are matched on a merit order basis, with quantities restricted by the ATCs. Two issues with the original Roth-Erev method are observed and the modified version defined in Section

2.2.4 above is proposed.

A maximum markup (markdown) of \$40/MWh is specified for each seller (buyer). Traders are not permitted to make negative profits and the feasible price range is divided into 30 offer prices for 1000 auction rounds cases and 100 offer prices for 10000 auction round cases. The parameters of the Roth-Erev method are calibrated using direct search within reasonable ranges. Nine combinations of buyer and sellers numbers and total trading capacities are tested using the calibrated values and *best-fit* parameter values determined by Erev & Roth.

The experimental results show that good market efficiency is achieved under all configurations and the sensitivity to method parameters is small. Levels of market power are found to be strongly predictive and little difference is found between cases in which opportunistic price offers are permitted and when traders are forced to bid at marginal cost. The results are compared with those from (Nicolaisen, Smith, Petrov, & Tesfatsion, 2000), in which genetic algorithms were used. The authors conclude that the reinforcement learning approach leads to higher market efficiency due their adaption according to *individual* profits.

Further research from Iowa State University, involving the modified Roth-Erev method, has centered around the AMES wholesale electricity market test bed. A detailed description of which is provided in Section 3.4.8 below.

In (Li & Tesfatsion, 2009b) AMES is used to investigate strategic capacity withholding in a wholesale electricity market design proposed by U.S. Federal Energy Regulatory Commission in April 2003. A five bus power system model with five generators and three dispatchable loads is defined and capacity withholding is represented by premitting traders to lower than true operating capacity and higher than true marginal costs.

Comparing results from a benchmark case (in which true production costs are reported, but higher than marginal cost functions may be reported) and cases in which reported production limits may be less than the true values, the authors find, that with sufficient capacity reserve, no evidence to suggest potential for inducing higher net earnings through capacity withholding in the WPMP.

Researchers from the University of Genoa have used the modified Roth-Erev method to study strategic behaviour in the Italian wholsale electricity market (Rastegar, Guerri, & Cincotti, 2009). The exact clearing procedure is replicated and a model of the Italian transmission system, including an interconnector to Sicily, with zonal subdivision, is defined. Within each of the 11 zones, thermal plant is combined ac-

cording to technology (coal, oil, combined cycle gas, turbo gas and repower) and associated with one of 16 generation companies according to the size of the companies share. The resulting 53 agents are assumed to bid full capacity and may markup bid prices in steps of 5%, with a maximum markup of 300%. Bids are cleared using a DC optimal power flow formulation with generation capacity constraints and zone interconnector flow limits. Agents are rewarded according to a uniform national price, computed as a weighted average of zonal prices with respect to zonal load. Using actual hourly load data, it is shown that in experiments in which agents *learn* their optimal strategy, historical trends were replicated in all but certain hours of peak load. The authors state a desire to test different learning methods and perform further empirical validation.

In (Micola, Banal-Estañol, & Bunn, 2008) a multi-tier model of wholesale natural gas, wholesale electricity and retail electricity markets is studied using another variant of the Roth-Erev method. Coordination between strategic business units (SBU) within the same firm, but participating in different markets, is varied systematically and profit differences observed.

An initial two-tier model involves firms with two associated agents rewards, r^1 and r^2 , are initially independant. A *reward independance* parameter α is used to control the fraction of profit from the other market that is used in rewarding the agent. The total rewards are

$$R^1(t) = (1 - \alpha)r^1(t) + \alpha r^2(t) \quad (3.6)$$

and

$$R^2(t) = (1 - \alpha)r^2(t) + \alpha r^1(t) \quad (3.7)$$

Each action a is a single price bid between zero and the price from the preceeding market. The Roth-Erev method is modified such that similar actions, $a - 1$ and $a + 1$, are reinforced also. For each agent, the action selection propensities in auction round t are

$$p_a^i(t) = \begin{cases} (1 - \gamma)p_a^i(t - 1) + R^i(t) & \text{if } s = k \\ (1 - \gamma)p_a^i(t - 1) + (1 - \delta)R^i(t) & \text{if } s = k - 1 \text{ or } s = k + 1 \\ (1 - \gamma)p_a^i(t - 1) & \text{if } s \neq k - 1, s \neq k \text{ or } s \neq k + 1 \end{cases} \quad (3.8)$$

where δ , with $0 \leq \delta \leq 1$, is the *local experimentation* parameter, γ is the discount

parameter and $i \in \{1, 2\}$. Actions whose probability of selection fall below a specified value are removed from the action space.

The initial simulation consists of two wholesalers and three retailers and α is varied from 0 to 0.5 in 51 discrete steps. The experiment is repeated using a three tier model in which two natural gas shippers supply three electricity generators who sell to four electricity retailers. The results show a rise in market prices as reward interdependence is increased and greater profits for integrated firms.

In (Weidlich & Veit, 2006) the modified Roth-Erev method is used to study interrelationships between contracts markets and balancing markets. Bids on the day-ahead contracts market consist of a price and a volume, which are assumed to be the same for each hour of the day. Demand is assumed to be fixed and inelastic. Bids on the balancing market consist of a reserve price, a *work* price and an offered quantity. The reserve price is that which must be paid for the quantity to be kept on standby and the work price must be paid if that quantity is called upon for transmission system stabilisation. No optimal power flow formulation or power system model is defined. At the day-ahead stage contract market and balancing market (according to reserve price) bids are cleared by stacking in order of ascending price until the forecast demand is met. On the following day, accepted balancing bids are cleared according to work price such that requirements for reserve dispatch are met. Bid prices on the contracts market are stratified into 21 discrete values between 0 and 100 and bid quantities into six discrete values between 0 and maximum capacity, giving 126 possible actions. Bid quantities on the balancing market are equal to the capacity remaining after contract market participation. 21 discrete capacity prices between 0 and 500 and 5 work prices between 0 and 100 are permitted, giving 105 possible actions in the balancing market. Separate instances of the modified Roth-Erev method are used to learn bidding strategies for each agent in each of the markets.

Interrelationships between the markets are studied using four scenarios in which the order of market execution and the balancing market pricing mechanism (discriminatory or pay-as-bid) are changed. Clearing prices in the market executed first are shown to have a considerable effect on prices in the following market. The authors find agent-based simulation to be a suitable tool for reproducing realistic market outcomes and recognise a need for more detailed models with larger action domains.

In the same year, the authors collaborated with Jian Yao and Shnuel Oren from the University of California to study the dynamics between two settlement markets

using the modified Roth-Erev method. The markets are a forwards contract market, in which transmission constraints are ignored, and a spot market that is cleared using a DC optimal power flow formulation with line flows calculated using power transfer distribution factors. Zonal prices are set in the forward market as weighted averages of nodal prices with respect to historical load shares. Profits are determined using these zonal prices and nodal prices from optimisation of the spot market. Demand is assumed inelastic to price, but different contingency states with peak and low demand levels are examined. A 53 bus stylised model of the Belgian electricity system from (Yao, Oren, & Adler, 2007; Yao, Adler, & Oren, 2008) is used to validate the results against those obtained using equilibrium methods. The nineteen generators are divided among two firms which learn strategies for bid price and quantity selection using the modified Roth-Erev method with a set of fixed parameter values taken from (Erev & Roth, 1998). The results show that the presence of a forward contracts market produces lower overall electricity prices and lower price volatility. The authors mention risk aversion to be included in suppliers utility functions in future work.

3.4 Open Source Power Engineering Software

In order to couple existing implementations of policy gradient reinforcement learning methods from the PyBrain machine learning library with scalable and extensible optimal power flow formulations, the Matlab¹ source code from MATPOWER was translated to the Python programming language. With permission from the MATPOWER developers, the resulting package has been released under the terms of the GNU General Public License (GPL) as a project named PYLON (Lincoln, Galloway, & Burt, 2009). This section describes the project in the context of other open source electric power engineering software and demonstrates the contribution made.

3.4.1 MATPOWER

Since 1996, a team of researchers at the Power Systems Engineering Research Center at Cornell University have been developing MATPOWER – a package of Matlab workspace files for solving power flow and optimal power flow problems. Initial development was part of the PowerWeb project which is a power exchange auction market simulator that is accessed by multiple users simultaneously through a web interface. MATPOWER is designed to be easy to use and modify while also offering good performance. It is available under a custom license that permits it to be used for any purpose providing the project and authors are cited. MATPOWER is very popular in education and research and an active mailing list is maintained by Ray Zimmerman.

MATPOWER includes five power solvers for both AC and DC problems. The default solver uses Newton’s method (Tinney & Hart, 1967) with the full Jacobian matrix updated at each iteration. Two variations on the fast decoupled method (Stott & Alsac, 1974) described in (Amerongen, 1989) provide faster convergence in certain networks. The standard Gauss-Seidel method (Glimn & Stagg, 1957) is provided largely for academic reasons and the DC solver provides non-iterative method. The properties of Matlab sparse matrices are exploited, allowing the solvers to scale well to very large systems. All functions are run from the Matlab command line or from within users programs and no graphical user interface is provided.

Starting with the first beta release of version 4.0, MATPOWER includes a pure Matlab primal dual interior point method (PDIPM) that can be used for solving DC

¹Matlab is a registered trademark of The Mathworks, Inc.

Package	Language	Licence	PF	DCOPF	ACOPF	CPF	SSSA	TDS	SE	SP	GUI	RL
AMES	Java	GPL		•							•	•
Cimphony	Java	EPL									•	
CIMTool	Java	LGPL									•	
DCOPFJ	Java	GPL		•								
MatDyn	Matlab	-								•		
MATPOWER	Matlab	-	•	•		•			•	•		
OpenDSS	Pascal	BSD	•							•		
PSAT	Matlab	GPL	•		•	•	•	•		•	•	
PYLON	Python	Apache	•	•		•		•	•	•	•	•
TEFTS	C	-				•		•		•		
VST	Matlab	-	•			•	•	•		•		
UWPFLOW	C	-				•				•		

Table 3.1: Open source electric power engineering software feature matrix.

and AC optimal power flow problems (H. Wang, Murillo-Sanchez, Zimmerman, & Thomas, 2007). Previously, FMINCON from the Matlab Optimization Toolbox² was required or one of a suite of high performance closed-source solvers. TSPOPF is a collection of three AC optimal power flow solvers, implemented in the C programming language and released as Matlab MEX files. It includes the original implementation of the step-controlled PDIPM from which the pure Matlab version was derived. MINOPF provides an interface to the Fortran based MINOS³ solver developed at the Systems Optimization Laboratory at Stanford University and is often the fastest solver for MATPOWER, but is available only for educational and research purposes. DC optimal power flow problems can alternatively be solved using a MEX interface to BPMPD – a commercial interior point method for linear and quadratic programming.

MATPOWER has an *extensible* optimal power flow formulation that allows additional optimisation variable and problem constraints to be introduced by the user. This is used internally to extend the standard optimisation problem to support piecewise linear cost functions, dispatchable loads, generator PQ capability curves and branch angle difference limit constraints. Examples of additional extensions include: reserve requirements, environmental costs and contingency constraints.

MATPOWER currently requires Matlab, version 6.5 or greater, which is a commercial software product from The Mathworks, Inc that is supported on all major platforms. However, with the recent inclusion of a native PDIPM it should be possible to run MATPOWER on GNU/Octave with minimal alteration.

3.4.2 MATDYN

MATDYN is an extension to MATPOWER developed by Stijn Cole from the Katholieke Universiteit Leuven for dynamic analysis of electric power systems. It was first released in 2009 under the same license as MATPOWER and uses the same coding style. The MATPOWER case format is extended with structs for dynamic and event data. MATDYN uses MATPOWER to obtain a power flow solution that is then used in solving the system of differential algebraic equations that represent the power system. Results for MATDYN are validated against those obtained from PSS/E⁴ and PSAT (A power system analysis toolbox described in Section 3.4.3, below) and show

²Optimization Toolbox is a registered trademark of The Mathworks, Inc.

³MINOS is trademark of Stanford Business Software, Inc.

⁴PSS/E is a registered trademark of Siemens Power Transmission & Distribution, Inc. Power Technologies International.

good correspondance.

3.4.3 Power System Analysis Toolbox

The Power System Analysis Toolbox (PSAT) is a Matlab toolbox for static and dynamic analysis of electric power systems developed by Federico Milano, currently at the University of Castilla in La Mancha, Spain. It is released under the terms of the GPL version 2 and offers routines for: power flow, bifurcation analysis, optimal power flow, small signal stability anlysis, time domain simulation and phasor measurement unit placement. A large number of input data formats are supported using Perl scripts and simulation reports can be exported plain text, Excel spreadsheets or L^AT_EX code. PSAT may be run from the Matlab commandline or from a Matlab based graphical user interface with support for network design using Simulink⁵. A slightly modified version of PSAT that can be run from the GNU/Octave commandline is also available.

Optimal power flow problems are solved via an interface to the General Algebraic Modeling System (GAMS). GAMS defines optimisation problems using a high-level modelling language and has a large solver portfolio, including all of the major commercial and academic solvers. The interface can be used for solving single period optimal power flow problems where the objective function can represent maximisation of social benefit, maximisation of the distance to the maximum loading condition or multi-objective of a combination of these. Multi-period optimal power flow is formulated as a mixed integer problem with linearised power balance constraints. Again, the objective function represents maximisation of social welfare, but is extended to include startup and shutdown costs.

Power flow and dynamic data are typically separated in electric power simulation tools, but in PSAT they are integrated. This combined with the large number of routines supported by PSAT can make the code base difficult to understand and modify. However, comprehensive documentation is included with PSAT and the mailing list is extremely active. The majority of correspondance on the list concerns PSAT 's dynamic simulation features. The price of GAMS licenses and the need for optimal power flow problems to be converted to the GAMS language can be barriers to its use.

⁵Simulink is a registered trademark of The Mathworks, Inc.

3.4.4 UWPFLOW

UWPFLOW is a research tool for voltage stability analysis developed at the University of Waterloo, Ontario, and the University of Wisconsin-Madison. It is written in ANSI-C and available as open source for research purposes only. The program is run with the terminal command

```
$ uwpflow [-options] input_file
```

where `input_file` is the path to a data file in the IEEE common data format (CDF) (IEEE Working Group, 1973) that may contain High-Voltage Direct Current (HVDC) and Flexible Alternating Current Transmission System (FACTS) device data. Output is also in the CDF and can include additional data for post-processing, including values for nose curve plots. An interface to UWPFLOW is used by PSAT for bifurcation analysis.

3.4.5 TEFTS

The University of Waterloo also hosts TEFTS – a transient stability program for studying energy functions and voltage stability phenomena in AC/HVDC dynamic power system models. It too is written in ANSI-C and is licensed for research purposes only. An executable file for DOS is provided and the source package contains a simple example.

3.4.6 Voltage Stability Toolbox

The Voltage Stability Toolbox (VST) is a Matlab toolbox, developed at the Center for Electric Power Engineering at Drexel University in Philadelphia, for investigating stability and bifurcation issues in power systems. The source may be used for any purpose providing the authors are properly cited. VST supports: power flow, time domain simulation, static and dynamic bifurcation analysis, singularity analysis and eigenvalue analysis. The feature matrix in Figure shows that VST has similar capabilities to PSAT. It was developed around a similar time and has the same goals for educational and research applications, but does not have the same quality of documentation nor such an active community of users and developers as PSAT.

3.4.7 Distribution System Simulator

In November 2008, the Open Distribution System Simulator (OpenDSS) was released as open source by the Electric Power Research Institute (EPRI). Development of OpenDSS began in April 1997 and it has been used in many distributed generation impact assessment applications. It is the only open source software designed for both distribution and transmission system simulation. OpenDSS supports steady-state analyses in the frequency domain such as power flow, harmonics and dynamics. Arbitrary n-phase unbalanced circuit analysis is supported using an object orientated data model. Circuit elements are defined in Object Pascal and solutions are found using a linear sparse matrix solver written in C and C++. OpenDSS is available under the Berkeley Software Distribution (BSD) license which allows use for almost any purpose. Circuits are defined in scripts, using a domain specific language, that may be executed through a graphical user interface or a Common Object Model (COM) interface. The user interface also provides circuit data editing, plotting and power flow visualisation tools.

The power flow solver is very fast and can be configured for repeated studies using daily, yearly or duty-cycle data. The multi-phase circuit model allows complex fault conditions to be defined and three short-circuit analysis methods are provided. The heritage of OpenDSS is in harmonics and dynamics analysis and it does not support any system optimisation techniques.

3.4.8 Agent-based Modelling of Electricity Systems

The AMES (Agent-based Modeling of Electricity Systems) power market test bed is a software package that models core features of the Wholesale Power Market Platform (WPMP) – a market design proposed by the US Federal Energy Regulatory Commission (FERC) in April 2003 for common adoption in regions of the US (Sun & Tesfatsion, 2007a). The design features:

- a centralised structure managed by an independent market operator,
- parallel day-ahead and real-time markets and
- locational marginal pricing.

Learning agents represent load serving entities or generating companies and learn using the Roth-Erev methods, described in Section 2.2.4 above, implemented using the

Repast agent simulation toolkit (Gieseler, 2005). The permissive license under which the source code for these algorithms has been released allowed direct translation of them for use in this study. Agents learn from the solutions of hourly bid/offer based DC-OPF problems formulated as quadratic programs using the DCOPFJ package (Sun & Tesfatsion, 2007b) described in Section 3.4.9, below.

The capabilities of AMES are demonstrated using a 5-bus network model in (Li & Tesfatsion, 2009a). The model is provided with AMES and a step-by-step tutorial explains how it may be used simulate. AMES comes with a Swing-based graphical user interface with plotting and table editor tools and is released under the the GNU General Public license version 2.

3.4.9 DCOPFJ

To solve market problems defined in AMES, researchers at Iowa State University developed a stand-alone DC optimal power flow solver in Java named DCOPFJ [1]. It formulates optimal power flow problems as convex quadratic programs and solves using QuadProgJ. The same researcher developed QuadProgJ as an stand-alone solver that uses the dual active set strictly convex quadratic programming algorithm [Goldfarb, Fletcher, Idnani 83]. DCOPFJ requires generator costs to be modelled as polynomial functions, of second order or less and no sparse matrix techniques are employed to allow application to large systems.

3.4.10 Summary

Chapter 4

Modelling Power Trade

The present chapter concerns the approach taken in comparing methods for learning to trade power. Transmission system constraints are accounted for and the power system model used is defined. Generator costs are added to this model and used to form an optimal power flow problem. An auction interface to the optimal power flow is used to provide a representation of a realistic electricity market. This market is then combined with a multi-agent system to create a simulation platform for competitive energy trade. Finally, three experiments are defined to test different aspects of the methods learning abilities.

4.1 Electricity Market Model

Computation of the generator dispatch points is executed using parts of the of the optimal power flow formulation from MATPOWER (R. Zimmerman, Murillo-Sánchez, & Thomas, 2009). This section describes parts of the optimal power flow formulation, unit-decommitment algorithm and auction interface from MATPOWER that were used to represent a centralised electricity market. Notable components of the full optimal power flow formulation (available in (R. D. Zimmerman & Murillo-Sánchez, 2007)) that have been ignored are shunt capacitors and inductors, generator P-Q capability curves and dispatchable loads. The power system model is described by defining the bus, branch and generator objects. The power flow equations associated with a network of these components are subsequently defined. The constrained cost variable approach to modelling generator cost functions from (H. Wang et al., 2007) is introduced, from which the optimal power flow formulation follows.

The experiments described in Section 4 require an optimal power flow problem to be solved at each step. To accelerate the simulation process for certain experiments the option to use a linearised DC formulation is used, the formulation of which is provided also. The tradeoffs between using DC models over AC have been examined in (Overbye, Cheng, & Sun, 2004) and found reasonable for locational marginal price calculations.

Since the optimal power flow formulations do not facilitate shutting down expensive generators, the unit-decommitment algorithm from MATPOWER is defined. Finally, to provide an interface to agent participants that resembles that of real electricity market, MATPOWER's auction wrapper for the optimal power flow routine is described.

4.1.1 Power System Model

The power system is assumed to be a three-phase AC system operating in the steady-state and under balanced conditions in which it may be represented by a single phase network of busbars connected by branch objects.

Branches

Each branch is modelled as a medium length transmission line in series with a transformer at the *from* end. A nominal- π model with total series admittance $y_s = 1/(r_s + jx_s)$ and total shunt capacitance b_c is used to represent the transmission line. The transformer is assumed to be ideal and both phase-shifting and tap-changing, with the ratio between primary winding voltage v_f and secondary winding voltage $N = \tau e^{j\theta_{ph}}$ where τ is the tap ratio and θ_{ph} is the phase shift angle. From Kirchhoff's current law the current in the series impedance is

$$i_s = \frac{b_c}{2}v_t - i_t \quad (4.1)$$

and from Kirchhoff's voltage law the voltage across the secondary winding of the transformer is

$$\frac{v_f}{N} = v_t + \frac{i_s}{y_s} \quad (4.2)$$

Substituting i_s from (4.1), gives

$$\frac{v_f}{N} = v_t - \frac{i_t}{y_s} + v_t \frac{b_c}{2y_s} \quad (4.3)$$

and rearranging in terms of i_t , gives

$$i_t = v_s \left(\frac{-y_s}{\tau e^{\theta_{ph}}} \right) + v_r \left(y_s + \frac{b_c}{2} \right) \quad (4.4)$$

The current through the secondary winding of the transformer is

$$N^* i_f = i_s + \frac{b_c v_f}{2 N} \quad (4.5)$$

Substituting i_s from (4.1), gives

$$N^* i_f = \frac{b_c}{2} v_t - i_t + \frac{b_c v_f}{2 N} \quad (4.6)$$

Substituting $\frac{v_f}{N}$ from (4.3) and rearranging, gives

$$i_s = v_s \left(\frac{1}{\tau^2} \left(y_s + \frac{b_c}{2} \right) \right) + v_r \left(\frac{y_s}{\tau e^{-j\theta}} \right) \quad (4.7)$$

Generators

Each generator i is modelled as an apparent power source $s_g^i = p_g^i + jq_g^i$ at a specific bus k , where p_g^i is the active power injection and q_g^i the reactive power injection, each expressed in per-unit to the system base MVA. Upper and lower limits on p_g^i are specified by p_{max}^i and p_{min}^i , respectively, where $p_{max}^i > p_{min}^i \geq 0$. Similarly, upper and lower limits on q_g^i are specified by q_{max}^i and q_{min}^i , respectively, where $q_{max}^i > q_{min}^i$.

Buses and Loads

At each bus k , constant active power demand is specified by p_d^k and reactive power demand by q_d^k . Upper and lower limits on the voltage magnitude at the bus are defined by $v_m^{k,max}$ and $v_m^{k,min}$, respectively. For one bus with an associated generator, designated the *reference* bus, the voltage angle is θ_k^{ref} and typically valued zero. Dispatchable loads are modelled as generators with negative p_g^i , where $p_{min}^i < p_{max}^i = 0$.

4.1.2 AC Power Flow Equations

For a network of n_b buses, n_l branches and n_g generators, let C_g be the $n_b \times n_g$ bus-generator connection matrix such that the $(i, j)^{th}$ element of C_g is 1 if generator j is connected to bus i . The $n_b \times 1$ vector of complex power injections from generators at all buses is

$$S_{g,bus} = C_g \cdot S_g \quad (4.8)$$

where $S_g = P_g + jQ_g$ is the $n_g \times 1$ vector with the i^{th} element equal to s_g^i .

Combining (4.7) and (4.4), the *from* and *to* end complex current injections for branch l are

$$\begin{bmatrix} i_f^l \\ i_t^l \end{bmatrix} = \begin{bmatrix} y_{ff}^l & y_{ft}^l \\ y_{tf}^l & y_{tt}^l \end{bmatrix} \begin{bmatrix} v_f^l \\ v_t^l \end{bmatrix} \quad (4.9)$$

where

$$y_{ff}^l = \frac{1}{\tau^2} \left(y_s + \frac{b_c}{2} \right) \quad (4.10)$$

$$y_{ft}^l = \frac{y_s}{\tau e^{-j\theta_{ph}}} \quad (4.11)$$

$$y_{tf}^l = \frac{-y_s}{\tau e^{j\theta_{ph}}} \quad (4.12)$$

$$y_{tt}^l = y_s + \frac{b_c}{2} \quad (4.13)$$

Let Y_{ff} , Y_{ft} , Y_{tf} and Y_{tt} be $n_l \times 1$ vectors where the l -th element of each corresponds to y_{ff}^l , y_{ft}^l , y_{tf}^l and y_{tt}^l , respectively. Furthermore, let C_f and C_t be the $n_l \times n_b$ branch-bus connection matrices, where $C_{f,i,j} = 1$ and $C_{t,i,k} = 1$ if branch i connects *from* bus j to bus k . The $n_l \times n_b$ branch admittance matrices are

$$Y_f = \mathbf{diag}(Y_{ff})C_f + \mathbf{diag}(Y_{ft})C_t \quad (4.14)$$

$$Y_t = \mathbf{diag}(Y_{tf})C_f + \mathbf{diag}(Y_{tt})C_t \quad (4.15)$$

and relate the complex bus voltages V to the branch *from* and *to* end current vectors

$$I_f = Y_f V \quad (4.16)$$

$$I_t = Y_t V \quad (4.17)$$

The $n_b \times n_b$ bus admittance matrix is

$$Y_{bus} = C_f^T Y_f + C_t^T \quad (4.18)$$

and it relates the complex bus voltages to the nodal current injections

$$I_{bus} = Y_{bus} V \quad (4.19)$$

The complex power losses from all branches are expressed as a non-linear function of V

$$\begin{aligned} S_{bus}(V) &= \mathbf{diag}(V) I_{bus}^* \\ &= \mathbf{diag}(V) Y_{bus}^* V^* \end{aligned} \quad (4.20)$$

The complex power injections at the *from* and *to* ends of all branches are also expressed as a non-linear functions of V

$$\begin{aligned} S_f(V) &= \mathbf{diag}(C_f V) I_f^* \\ &= \mathbf{diag}(C_f V) Y_f^* V^* \end{aligned} \quad (4.21)$$

$$\begin{aligned} S_t(V) &= \mathbf{diag}(C_t V) I_t^* \\ &= \mathbf{diag}(C_t V) Y_t^* V^* \end{aligned} \quad (4.22)$$

4.1.3 DC Power Flow Equations

The same power system model is used in the formulation of the linearised DC power flow equations, but the following additional assumptions are made:

- The resistance r_s and shunt capacitance b_c of all branch can be considered negligible.

$$y_s \approx \frac{1}{jx_s}, b_c \approx 0 \quad (4.23)$$

- Bus voltage magnitudes $v_{m,i}$, are all approximately 1 per-unit.

$$v_i \approx 1e^{j\theta_i} \quad (4.24)$$

- The voltage angle difference between bus i and bus j is small enough that

$$\sin \theta_{ij} \approx \theta_{ij} \quad (4.25)$$

Applying the assumption that branches are lossless from (4.23), the quadrants of the branch admittance matrix, (4.10), (4.11), (4.12) and (4.13), approximate to

$$y_{ff}^l = \frac{1}{jx_s\tau^2} \quad (4.26)$$

$$y_{ft}^l = \frac{-1}{jx_s\tau e^{-j\theta_{ph}}} \quad (4.27)$$

$$y_{tf}^l = \frac{-1}{jx_s\tau e^{j\theta_{ph}}} \quad (4.28)$$

$$y_{tt}^l = \frac{1}{jx_s} \quad (4.29)$$

Applying the uniform bus voltage magnitude assumption from 4.24 to (4.9), the branch *from* end current approximates to

$$i_f \approx \frac{e^{j\theta_f}}{jx_s\tau^2} - \frac{e^{j\theta_t}}{jx_s\tau e^{-j\theta_{ph}}} \quad (4.30)$$

$$= \frac{1}{jx_s\tau} \left(\frac{1}{\tau} e^{j\theta_f} - e^{j(\theta_t + \theta_{ph})} \right) \quad (4.31)$$

The branch *from* end complex power flow $s_f = v_f \dot{i}_f^*$ therefore approximates to

$$s_f \approx e^{j\theta_f} \cdot \frac{j}{x_s\tau} \left(\frac{1}{\tau} e^{-j\theta_f} - e^{j(\theta_t + \theta_{ph})} \right) \quad (4.32)$$

$$= \frac{1}{x_s\tau} \left[\sin(\theta_f - \theta_t - \theta_{ph}) + j \left(\frac{1}{\tau} - \cos(\theta_f - \theta_t - \theta_{ph}) \right) \right] \quad (4.33)$$

Applying the voltage angle difference assumption from 4.25 yields the approximation

$$p_f \approx \frac{1}{x_s\tau} (\theta_f - \theta_t - \theta_{ph}) \quad (4.34)$$

Let B_{ff} and $P_{f,ph}$ be the $n_l \times 1$ vectors where $B_{ff_i} = \frac{1}{x_s^i \tau^i}$ and $P_{f,ph_i} = \frac{-\theta_{ph}^i}{x_s^i \tau^i}$. If the system B matrices are

$$B_f = \mathbf{diag}(B_{ff})(C_f - C_t) \quad (4.35)$$

$$B_{bus} = (C_f - C_t)^\top B_f \quad (4.36)$$

then the real power bus injections are

$$P_{bus}(\Theta) = B_{bus}\Theta + P_{bus,ph} \quad (4.37)$$

where Θ is the $n_b \times 1$ vector of bus voltage angles and

$$P_{bus,ph} = (C_f - C_t)^\top + P_{f,ph} \quad (4.38)$$

The active power flows at the branch *from* ends are

$$P_f(\Theta) = B_f\Theta + P_{f,ph} \quad (4.39)$$

and $P_t = -P_f$ since branches are assumed to be lossless.

4.1.4 AC OPF Formulation

Generator active and, optionally, reactive power output costs are defined by convex n -segment piecewise linear cost functions.

$$c^{(i)}(x) = m_i p + c_i \quad (4.40)$$

for $p_i \leq p \leq p_{i+1}$, $i = 1, 2, \dots, n$ where $m_{i+1} \geq m_i$ and $p_{i+1} > p_i$. Since these costs are non-differentiable the constrained cost variable approach from (H. Wang et al., 2007) is used to make the optimisation problem smooth. For each generator i a helper cost variable y_i added to the objective function. Inequality constraints

$$y_i \geq m_{i,j}(p - p_j) + c_j, \quad j = 1 \dots n \quad (4.41)$$

require y_i to lie on the epigraph of $c^{(i)}(x)$. The objective of the optimal power flow problem is to minimise the sum of the cost variables for all generators.

$$\min_{\theta, V_m, P_g, Q_g, y} \sum_{i=1}^{n_g} y_i \quad (4.42)$$

Equality constraints enforce the balance between generator complex power injections S_g and the sum of apparent power demand S_d and the branch losses expressed in (4.20).

$$S_{bus}(V) + S_d - S_g = 0 \quad (4.43)$$

Branch complex power flow limits S_{max} are enforced by the inequality constraints

$$|S_f(V)| - S_{max} \leq 0 \quad (4.44)$$

$$|S_f(V)| - S_{max} \leq 0 \quad (4.45)$$

The reference bus voltage angle θ_i is fixed by the equality constraint

$$\theta_i^{ref} \leq \theta_i \leq \theta_i^{ref}, \quad i \in \mathcal{I}_{ref} \quad (4.46)$$

Upper and lower limits on the optimisation variables V_m , P_g and Q_g are enforced by the inequality constraints

$$v_m^{i,min} \leq v_m^i \leq v_m^{i,max}, \quad i = 1 \dots n_b \quad (4.47)$$

$$p_g^{i,min} \leq p_g^i \leq p_g^{i,max}, \quad i = 1 \dots n_g \quad (4.48)$$

$$q_g^{i,min} \leq q_g^i \leq q_g^{i,max}, \quad i = 1 \dots n_g \quad (4.49)$$

4.1.5 DC OPF Formulation

Piecewise linear cost functions are also used to define generator active power costs in the DC optimal power flow formulation. Since the power flow equations are linearised, following assumptions (4.23), (4.24) and (4.25), the optimal power flow problem simplifies to a linear program. The voltage magnitude variables V_m and generator reactive power set-point variable Q_g are eliminated following assumption (4.25) since branch reactive power flows depend on bus voltage angle differences.

The objective function reduces to

$$\min_{\theta, P_g, y} \sum_{i=1}^{n_g} y_i \quad (4.50)$$

Combining the nodal real power injections, expressed as a function of Θ , from (4.37) with active power generation P_g and active demand P_d , the power balance constraint is

$$B_{bus}\Theta + P_{bus,ph} + P_d - C_g P_g = 0 \quad (4.51)$$

Limits on branch active power flows $B_f\Theta$ and $B_t\Theta$ are enforced by inequality constraints

$$B_f\Theta + P_{f,ph} - F_{max} \leq 0 \quad (4.52)$$

$$-B_f\Theta + P_{f,ph} - F_{max} \leq 0 \quad (4.53)$$

The reference bus voltage angle equality constraint from (4.46) and the p_g limit constraint from (4.48) are applied also.

4.1.6 OPF Solution

4.1.7 Unit Decommitment

In the OPF formulation above (See section 2.1) the solver must attempt to dispatch generators within their minimum and maximum power limits. Expensive generators can not be completely shutdown even if doing so would result in a lower total system cost. To achieve this an implementation of the *unit decommitment* algorithm (See Algorithm 1, below) from MATPOWER was used (R. D. Zimmerman & Murillo-Sánchez, 2007, p. 20). The algorithm finds the least cost dispatch by solving repeated OPF problems with different combinations of generating units at their minimum active power limit deactivated. The lowest cost solution is returned when no further improvement can be made and no candidate generators remain.

Algorithm 1 Unit decommitment

```
1: initialise  $N \leftarrow 0$ 
2: solve initial OPF
3:  $L_{tot} \leftarrow$  total load capacity
4: while total min gen. capacity  $> L_{tot}$  do
5:    $N \leftarrow N + 1$ 
6: end while
7: repeat
8:   for  $c$  in candidates do
9:     solve OPF
10:  end for
11: until done = True
```

4.1.8 Auction Interface

Solving the optimisation problem defined above (See section 2.1) is intended to represent the function of a pool market operator. To present agents participating in this market with a simpler interface, more representative of a pool market an implementation of the “smart market” auction clearing mechanism from MATPOWER was used (R. D. Zimmerman & Murillo-Sánchez, 2007, p. 31). Using this interface the OPF problem is formulated from a list of offers to sell and bids to buy power.

An offer/bid specifies a quantity of power in MW and a price for that power in \$/MWh, to be traded over a particular period of time. The market accepts sets of offers and bids and uses the solution of the unit decommitment algorithm to return sets of *cleared* offer and bids. The cleared offers/bids can then be used to produce dispatch orders from which values of revenue and earnings/losses may be determined.

The market features the ability to set maximum offer price limits and minimum bids price limits. The process of clearing the market begins by withholding offers/bids outwith these limits, along with those specifying non-positive quantities. Valid offers/bids for each generator are then sorted into non-decreasing/increasing order and used to form new piecewise-linear cost functions and adjust the generator’s active power limits.

The dispatch points and nodal prices from solving a unit decommitment OPF with the newly configured generators as input are used in the auction clearing mechanism to determine the proportion of each offer/bid block that should be cleared and

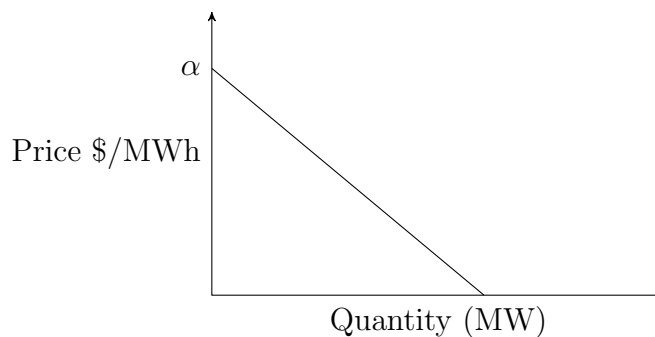


Figure 4.1: Acceptable price range

the associated price for each.

Different pricing options arise from the fact that a gap in which any price is acceptable to all participants may exist between the last accepted offer price and the last accepted bid price (See Figure X). This allows, for example, the prevention of bids setting the price, even when they are marginal, by selecting the *last accepted offer* auction type.

4.2 Multi-Agent System

This section describes the implementation of agents and the coordination of their interactions in multi-agent systems. A generic market environment, with which agents interact regardless of the learning method employed, is defined along with tasks that associate a purpose with an environment. The design of connectionist systems and tables, used to represent agent policies, are given and the process by which they are modified by the agent's learning algorithm is explained. Finally, the collection of agents and tasks into a multi-agent system and the sequence of interactions is illustrated.

4.2.1 Agent, Task & Environment

Environment

Each generator/dispatchable load in the power system model (See Section 4.1.1, above) is associated with an agent¹ via the agent's environment. Each environ-

¹Management of a portfolio of generators is also supported by the architecture used, but this feature has not been exploited.

ment maintains an association with a singular market instance for submission of offers/bids. Two main operations are supported by an agent's environment.

For a power system with n_b buses, n_l and n_g generators, the `getSensors` method returns a $n_s \times 1$ vector of sensor values s_e^i for generator i where $n_s = 2n_b + 2n_l + 3n_g$. s_g^i represents the visible state of the environment for the agent associated with generator i . s_e^i is composed of sensor values for all buses, branches and generators.

$$s_{e,l}^i = \begin{bmatrix} P_f \\ Q_f \\ P_t \\ Q_t \\ \mu_{S_f} \\ \mu_{S_t} \end{bmatrix}, \quad s_{e,b}^i = \begin{bmatrix} V_m \\ V_a \\ \lambda_P \\ \lambda_Q \\ \mu_{v_{min}} \\ \mu_{v_{max}} \end{bmatrix}, \quad s_{e,g}^i = \begin{bmatrix} P_g \\ \mu_{p_{min}} \\ \mu_{p_{max}} \\ \mu_{q_{min}} \\ \mu_{q_{max}} \end{bmatrix}, \quad s_e^i = \begin{bmatrix} s_{e,b}^i \\ s_{e,b}^i \\ s_{e,g}^i \end{bmatrix} \quad (4.54)$$

Not all values are used by the agent and the filtration is done according to the agent's task.

The `performAction` method takes $n_a \times 1$ vector of action values a_e if $s_{bid} = 0$, otherwise a $2n_a \times 1$ vector. If $s_{bid} = 0$, the i -th element of a_e is the offered/bid price in \$/MWh, where $i = 1, 2, \dots, n_{in}$. If $s_{bid} = 1$, the j -th element of a_e is the offered/bid price in \$/MWh, where $j = 1, 3, 5, \dots, n_{in} - 1$ and the k -th element of a_e is the offered/bid quantity in MW where $j = 2, 4, 6, \dots, n_{in}$. The action vector is separated into offers/bids and submitted to the market. If $s_{bid} = 0$, then $qty = p_{max}/n_{in}$.

Task

An agent does not interact directly with its environment, but is associated with a particular task. A task associates a purpose with an environment and defines what constitutes a reward. Regardless of the learning method employed, the goal of an agent participant is to make a financial profit and the rewards are thus defined as the sum of earnings from the previous period t as calculated by the market. Sensor data from the environment is filtered according to the task being performed. Agents using the value-function methods under test have a tabular representation of their policy with one row per environment state. Thus, observations consist of a single integer value s_v , where $s_v \leq n_s$ and $s_v \in \mathbb{Z}^+$. Agents using the policy-gradient methods under test have policy functions represented by connectionist systems that use an input vector w_i of arbitrary length where the i -th element $\in \mathbb{R}$. Before input to the

connectionist policy function approximator, sensor values are scaled to be between -1 and 1 . Outputs from the policy are denormalised using action limits before the action is performed on the environment.

Agent

Agent i is defined as an entity capable of producing an action a_i based on previous observations of its environment s_i , where a_i and s_i are vectors of arbitrary length. As illustrated in Figure X, each agent is associated with a *module*, a *learner* and a *dataset*. The module represents the agent's policy for action selection and returns an action vector a_m when activated with observation s_t . The value-function methods under test use modules which represent a $N \times M$ table, where N is the total number of states and M is the total number of actions.

$$\begin{bmatrix} v_{1,1} & v_{1,2} & \cdots & v_{1,m} \\ v_{2,1} & \ddots & & \vdots \\ \vdots & & \ddots & \vdots \\ v_{n,1} & \cdots & \cdots & v_{n,m} \end{bmatrix} \quad (4.55)$$

Whereas for the policy gradient methods, the module is a connectionist network of other modules as illustrated in Figure X. The learner can use any reinforcement learning algorithm and modifies the values/parameters of the policy module to increase expected future reward. The dataset stores state-action-reward tuples for each interaction between the agent and its environment. The stored history is used by value-function learners when computing updates to the policy values. Policy gradient learners search directly in the space of the policy network parameters.

Value-function learners have an association with an explorer module which returns an explorative action a_e when activated with the current state s_t and action a_m from the policy module. For example, the ϵ -greedy explorer has a randomness parameter ϵ and a decay parameter d . When the ϵ -greedy explorer is activated, a random number x_r is drawn where $0 \leq x_r \leq 1$. If $x_r < \epsilon$ then a random vector of the same length as a_e is returned, otherwise $a_e = a_m$.

4.2.2 Simulation Event Sequence

In each simulation of a system consisting of one or more task-agent pairs a sequence of interactions is coordinated, as illustrated in Figure X.

At the beginning of each step/period the market is initialised and all offers/bids removed. From each task-agent tuple (T, A) an observation s_t is retrieved from T and integrated into agent A . When an action is requested from A its module is activated with s_t and the action a_e is returned. a_e is performed on the environment of A via its associated task T . Recall, this process involves the submission of offer/bids to the market. Once all actions have been performed the offer/bids are cleared using the auction mechanism. Each task T is requested to return a reinforcement reward r_t . All cleared offers/bids associated with the generator in the environment of T are retrieved from the market and r_t is computed from the difference between revenue and cost values.

$$r_t = \text{revenue} - (c_{fixed} + c_{variable}) \quad (4.56)$$

The reward r_t is given to agent A and the value is stored under a new sample is the dataset, along with the last observation s_t and the last action performed a_e . Each agent is instructed to learn from its actions using r_t , at which point the values/parameters of the module of A are updated according to the algorithm of the learner.

This constitutes one step of the simulation and the process is repeated until the specified number of steps are complete. Unless agents are reset, the complete history of states, actions and received rewards is stored in the dataset of each agent.

Chapter 5

Learning to Trade Power

To the best of the author’s knowledge, this thesis presents the first case of policy gradient reinforcement learning methods being applied to electricity trading problems. It must first be proven that these methods are capable of learning a basic power trading policy. This section describes the method used to compare methods in their ability to do so.

5.1 Aims & Objectives

The purpose of this first experiment is to compare the relative abilities of value-function and policy gradient methods in learning a basic policy for trading power. The objective of the exercise is to examine:

- Speed of convergence to an optimal policy,
- Magnitude and variance of profit and,
- Sensitivity to algorithm parameter changes.

5.2 Method of Simulation

Each learning method is tested individually using a range of parameter configurations. A power system model with one bus, one generator k and one dispatchable load l , as illustrated in Figure X is used. In this context, the market clearing process is equivalent to creating offer and bids stacks and finding the point of intersection. A passive agent is associated with the dispatchable load. This agent bids for $-p_{g,l}^{min}$

at marginal cost each period regardless of environment state or reward signal. A dispatchable load is used instead of a constant load to allow a price to be set. Generator k is given sufficient capacity to supply the demand of the dispatchable load, $p_{g,k}^{max} > -p_{g,l}^{min}$, and the marginal of the k is half that of the load l . The generator and dispatchable load attributes are given in Table X. A price cap for the market is set to twice the marginal cost of the l at full capacity, $p_{g,l}^{min}$. The DC optimal power flow formulation (See Section 2.1, above) is used to clear the market and reactive power trade is omitted. The Python code used to conduct the simulations is provided in Listing X.

5.3 Results

5.4 Discussion

5.5 Critical Analysis

Chapter 6

Competitive Power Trade

Having compared the learning methods in a one-player context, this section describes the method used to pit them against one and other and compare their performance.

6.1 Aims & Objectives

Competition is fundamental to markets and this experiment aims to compare learning methods in a complex dynamic market environment with multiple competing participants. The objective is to compare:

- Performance, in terms of profitability, over a finite number of periods,
- Profitability when trading both active and reactive power.
- Consistency of profit making and,
- Sensitivity to algorithm parameter changes.

6.2 Method of Simulation

Figure X illustrates the structure of the six bus power system model, from (Wood & Wollenberg, 1996), with three generators and fixed demand at three of the buses used to provide a dynamic environment with typical system values. Bus, branch and generator attribute values are stated in Tables X, Y, Z, respectively. Three learning methods are compared in six simulations encapsulating all method-generator combinations.

A price cap c_{cap} of twice the marginal cost of the most expensive generator at full capacity is set by the market. The simulations are repeated for with agents actions composing both price and quantity and with just price. For the value-function methods, the state is defined by the market clearing price from the previous period, divided equally into x_s discrete states between 0 and c_{cap} . The state vector s_t for the policy gradient methods consists of the market clearing price and generator set-point from the previous period.

$$s_t = \begin{bmatrix} c_{mcp} \\ p_g \end{bmatrix} \quad (6.1)$$

The script used to conduct the simulation is provided in Listing X.

6.3 Results

6.4 Discussion

6.5 Critical Analysis

Chapter 7

System Constraint Exploitation

One of the main features of agents using policy gradient learning methods and artificial neural networks for policy function approximation is their ability to accept many signals of continuous sensor data. This section describes an experiment in which the power system is severely constrained for certain periods, resulting in elevated nodal marginal prices in particular areas. The methods are tested in their ability to exploit these constraints and improve their total accumulated reward.

7.1 Aims & Objectives

7.2 Results

7.3 Discussion

7.4 Critical Analysis

Chapter 8

Conclusions and Further Work

8.1 Summary Conclusions

8.2 Further Work

8.2.1 AC Optimal Power Flow

8.2.2 Decentralised Trade

8.2.3 Standardisation

8.2.4 Blackbox optimisation

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