Optimization and Visualization of the North American Eastern Interconnect Power Market

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Abstract
This paper uses a first generation OPF model of the Eastern Interconnect to gauge the potential benefits deriving from RTOs in an ideal world. So long as the lines and generators are operating as planned, there is sufficient low cost capacity to keep peak demand prices in the Eastern Interconnect below $50 MWH. Under a reasonable approximation of ideal conditions a repeat of San Diego’s experience is unlikely. Unfortunately a few downed lines or generator outages can greatly impact local prices even with unrestricted trade.

1. Introduction
The road to competitive electricity markets in the United States is becoming littered with roadkill. In June 1998 Midwest wholesale prices jumped from about $30MWh to over $5000MWh, bankrupting at least two suppliers [1]. In the Spring of 2000 capacity markets in New York and New England were destroyed by market manipulators [2]. During the summer of 2000, San Diego electricity consumers saw their bills double as demand approached the physical limits of generation [3]. Not surprisingly, politicians and regulators have imposed price caps and are calling for price fixing investigations and re-regulation [4]. Born again “competitive” utilities are demanding that legislatures and courts once again bail them out of their financial distress [5]. Restructuring wasn’t supposed to progress that way.

The Federal Energy Regulatory Commission (FERC) has concluded that its “open access to transmission” policy, Orders 888 and 889, has not been sufficient to bring effective competition to electricity markets. Reflecting Adam Smith’s telling insight (1776) that competition is limited by the size of the market, FERC decreed in December 1999 that all private and public transmission owners form and join Regional Transmission Organizations [6]. Large regional markets would replace balkanized utility systems. Presumably fierce price competition would result because RTOs would encompass more generators vying for customers, all on a level playing field.

RTOs are to be operating by December 15, 2001 and are to address the Commission’s finding that “…there remain important transmission-related impediments to a competitive wholesale market.” [7]. These impediments include “….economic inefficiencies…. in the current operation and expansion of the transmission grid, and (2) continuing opportunities for transmission owners to unduly discriminate….to favor their own or their affiliates’ power marketing activities.”[ 8]

This paper uses a first generation optimal power flow (OPF) derived model of the Eastern Interconnect to gauge the potential benefits deriving from RTOs in an ideal world [9]. Specifically we ask, if the Eastern Interconnect were managed as one huge RTO, would there be significant short term benefits from perfect competition and free trade? Since any real RTOs will be smaller than the Eastern Interconnect and would likely have significant departures from competitive pricing (price equals marginal cost) our estimate overstates the actual short-term benefit of RTOs. Next we show how sensitive these estimates are to relatively small changes in the network configuration.

A perfectly functioning RTO managing the Eastern Interconnect could bring significant benefits. So long as the lines and generators are operating as planned, there is sufficient low cost capacity to keep peak demand prices below $50 MWH. Of course this result assumes purely competitive pricing and that the RTO ensures free trade. But, under a reasonable approximation of ideal conditions an Eastern Interconnect repeat of San Diego’s experience is unlikely. Unfortunately a few downed lines or generator outages can greatly impact local prices even with unrestricted trade.

The risk is RTOs might not act in the general interest. If they do not, the sensitivity analyses suggest they could cause local price spikes and protect noncompetitive pricing. There is a growing literature suggesting that Independent System Operator governance and special
interest capture are problems that are not solved [10],[11] and[12]. Further in the foreseeable future there are likely to be several RTOs in the Eastern Interconnect. An individual RTO could act to maximize the welfare of its members at the expense of others. We intend to address these topics in the future with the aid of the Eastern Interconnect model.

The paper is organized as follows. Section 2 presents the electrical system model of the Eastern Interconnect that underlies our estimates. The electrical grid is a corrected version of the North American Electrical Reliability Council’s (NERC) Summer 2000 Base Case; generator costs are taken from the FERC Form 1. Section 3 discusses the OPF solution algorithm as implemented in PowerWorld Simulator. Section 4 compares the electricity prices and the distribution of generator production under administered and free trade. Section 5 shows the sensitivity of these results to generator outages, line outages and line limit errors, while Section 6 is the conclusion.

2. Eastern Interconnect System Model

The starting point for this study was NERC’s summer 2000 Base Case model of the Eastern Interconnect [13]. The Summer 2000 Base Case was built by NERC’s Multiregional Modeling Working Group from regional power flow models provided by NERC’s members. This model is intended to “...realistically simulate bulk electric system behavior.” The Committee’s guidance for component models ensures that the integrated model is realistic:

Of paramount importance in this effort is the detail in which the various systems are modeled. The detail included in each system model must be adequate for all inter and intraregional study activities but not necessarily as detailed as required for internal studies. This means that each system model should include sufficient detail to ensure that power transfers or contingencies can be realistically simulated.[14]

The Summer 2000 Base Case consists of 33,538 buses, 22,812 loads, 5312 generators, 2361 switched shunts, 45,421 ac lines/transformers (lines), 10 dc lines, and 107 control areas. Total load is 536.4 GW. Of the buses approximately 31,000 are located in the U.S. with the remainder in Canada. For this study optimization was only performed on the U.S. buses. Figure 1 shows an interactive one-line diagram of a portion of the system; overall the one-line contains approximately 7300 of the higher voltage buses and 9300 lines.

In order to perform OPF studies on this model two major issues needed to be addressed. The first was the large number of initial line violations, while the second was obtaining estimates of generator costs. Using the default “A” limit set the case initially had 248 line limit violations, with 17 of the line flows at 150% or more of their limit (the highest was 321%). Thankfully many of these limit violations were in Canada and hence outside the scope of this study. Of the remainder, most were either limit violations on generator step-up transformers or violations on lines supplying radial load. These limits were disabled during the study, with the assumptions that generator step-up transformers are always sized to match the rated capacity of the unit and violations on radial loads can not be enforced by generator controls. The remaining limits were either 1) disabled if they could not be enforced by the available generator controls (such as in a radial load network), 2) disabled if they appeared to be adjacent to equivalenced portions of the network, or 3) enforced by the OPF. The NERC flowgates were also modeled in the case. However due to a lack of publicly available limits only those flowgates described on the NERC Market Redispatch website [15] were both monitored and enforced. The case also had low voltages at a handful of buses, with seven bus voltage magnitudes below 0.9 pu (the lowest was 0.803 pu) and 300 between 0.90 and 0.95 per unit. The bus voltages were monitored during the simulation but were not corrected.
The second issue was determination of generator operating costs. Unfortunately, the NERC 2000 list of generators does not report operating costs. Therefore, generators reported on the NERC 2000 must be identified and matched with generators reported on other survey Forms such as the FERC Form I [16] or the EIA-412 [17] where cost data is collected. Once matched, operating cost data for specific generators can be prepared for the model. Table 1 displays the technological character of the generating units modeled. The NERC 2000 case specifies a total of 5,312 generators, of which 4,693 are located in the United States, with the remainder located in Canada. Total capacity of the U.S. units sums to over 570 GW. Units identifiable as fossil steam comprised 344 GW of the total capacity, with another 80 GW attributable to nuclear sources. Only 39 GW of capacity could not be identified to known generators.

Table 2 displays totals for generators where fuel costs were calculated at the plant level, using the average annual heat rate as an indicator of conversion efficiency, multiplied by the composite fuel cost as burned at the plant. Heat rates were calculated from the EIA-759 (1999), "Monthly Power Plant Report," and FERC Form 423 (1999), “Monthly Report of Cost and Quality of Fuels for Electric Plants.” Fossil cost data were developed from the FERC Form 423 (1999), “Monthly Report of Cost and Quality of Fuels for Electric Plants,” 1999. Nuclear cost data were calculated from the FERC Form I, “Annual Report of Major Electric Utilities, Licensees and Others,” 1998. 1999 data are used for fossil plants (including combined cycles and turbines), and 1998 data, converted to 1999 dollars are used for nuclear plants. A uniformly low operating cost was assigned to all units identifiable as either hydroelectric or pumped storage. In this manner, costs were developed for 3,391 of the 4,693 U.S. generators, or 72%. Coverage in terms of capacity is much greater, as over 507 GW of the 570 GW (89%) are dispatched using these operating costs.

In the real world marginal costs increase as generation approaches design capacity. However for this study a constant cost model was used because no reliable means of estimating heat rate curves for the several types of generator was available. Rather, an average annual heat

<table>
<thead>
<tr>
<th>Technology Type</th>
<th>Data</th>
<th>NERC Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fluidized Bed</td>
<td>Capacity (MW)</td>
<td>ECAR 250, FRCC 180, MAIN 186, MAPP 290, NEPOOL 50, NYPP 272, PJM 92, SERC 320, SPP 320, Total 1,640</td>
</tr>
<tr>
<td></td>
<td>Units (no.)</td>
<td>1, 1, 2, 2, 3, 2, 3, 2, 14</td>
</tr>
<tr>
<td>Combined Cycle</td>
<td>Capacity (MW)</td>
<td>1,620, 4,291, 359, 2,818, 3,472, 2952, 1,400, 767, Total 17,678</td>
</tr>
<tr>
<td></td>
<td>Units (no.)</td>
<td>4, 33, 5, 39, 52, 37, 27, 8, 205</td>
</tr>
<tr>
<td>Gas Turbine</td>
<td>Capacity (MW)</td>
<td>4,783, 5,523, 3,831, 4,056, 2,225, 2,556, 8,467, 11,947, 2,919, Total 46,307</td>
</tr>
<tr>
<td></td>
<td>Units (no.)</td>
<td>98, 122, 81, 106, 53, 61, 152, 248, 52, 973</td>
</tr>
<tr>
<td>Hydroelectricity</td>
<td>Capacity (MW)</td>
<td>774, 47, 529, 2,749, 1,339, 3,815, 992, 12,055, 2,050, Total 24,349</td>
</tr>
<tr>
<td></td>
<td>Units (no.)</td>
<td>30, 4, 58, 68, 111, 54, 23, 343, 64, 755</td>
</tr>
<tr>
<td>Nuclear: Boiling Water</td>
<td>Capacity (MW)</td>
<td>2,279, 6,177, 1,976, 2,831, 7,743, 7,704, Total 28,710</td>
</tr>
<tr>
<td></td>
<td>Units (no.)</td>
<td>2, 7, 3, 3, 7, 8, 30</td>
</tr>
<tr>
<td>Nuclear: Pressurized</td>
<td>Capacity (MW)</td>
<td>4,503, 3,954, 7,128, 1,604, 5,386, 980, 2,998, 23,359, 1,164, Total 51,076</td>
</tr>
<tr>
<td></td>
<td>Units (no.)</td>
<td>5, 5, 10, 3, 6, 1, 3, 24, 1, 58</td>
</tr>
<tr>
<td>Pump Storage</td>
<td>Capacity (MW)</td>
<td>2,127, 440, 1,647, 1,300, 1,349, 7,716, 438, 15,017</td>
</tr>
<tr>
<td></td>
<td>Units (no.)</td>
<td>8, 2, 7, 16, 11, 37, 12, 93</td>
</tr>
<tr>
<td>Fossil Steam</td>
<td>Capacity (MW)</td>
<td>84,893, 22,294, 32,056, 21,374, 10,362, 16,992, 30,518, 90,522, 34,736, 343,748</td>
</tr>
<tr>
<td></td>
<td>Units (no.)</td>
<td>293, 93, 167, 146, 67, 97, 147, 370, 159, 1,539</td>
</tr>
<tr>
<td>Wind Turbine</td>
<td>Capacity (MW)</td>
<td>5,774, 1,802, 5,200, 3,114, 2,887, 2,382, 3,647, 10,588, 2,221, 39,325</td>
</tr>
<tr>
<td></td>
<td>Units (no.)</td>
<td>97, 35, 99, 92, 168, 101, 97, 148, 40, 871</td>
</tr>
<tr>
<td>Total U.S. Capacity modeled (MW)</td>
<td>107,081, 38,294, 55,419, 43,677, 27,605, 34,379, 58,980, 165,384, 44,910, 570,445</td>
<td></td>
</tr>
<tr>
<td>Total Units (no.)</td>
<td>551, 309, 427, 506, 477, 387, 484, 1,207, 359, 4,693</td>
<td></td>
</tr>
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</table>
rate at the plant level, as reported from FERC Form I data, was applied to the fuel cost incurred by the plant to arrive at an operating cost estimate which jointly reflects the cost of fuel input and the operating efficiency of the plant. The heat rate was calculated as the sum of the fuel input converted to MMBtu divided by the net output for the reporting year. Fuel cost ($/MMBtu) was calculated as total cost of fuel at the plant divided by total heat input of all fuels burned. The resulting statistic, rendered in mills per kilowatt hour, was used as the estimate of marginal cost.

3. OPF Algorithm

Determination of the cheapest way of meeting demand is sensitive to numerous physical constraints imposed on the market by the transmission system. The solution of this problem requires the use of an OPF algorithm. The goal of the OPF is the minimization (or occasionally maximization) of some objective function, subject to a variety of equality and inequality constraints. Often the objective function consists of the total generation cost in some set of areas, while the equality and inequality constraints include the power flow equations, generation/load balance, generator Mvar limits, branch flow limits, and transmission interface limits.

For the case study presented here an LP based approach was used [18]. Overall the LP based methods iterate between solving the power flow to take into account system non-linearities and solving an LP to redispatch the control variables subject to certain equality and inequality constraints. The basic steps in the LP algorithm employed here are

1. Solve the power flow equations.
2. Determine constraint violations; linearize the pertinent power flow constraint equations with respect to the control variables.
3. Solve the LP using the Revised Simplex Method with explicit bounds on individual variables in order to get the change in the control variables.
4. Update the control variables and then update the power system state using a linearized network model.
5. If the changes in the control variables are above a tolerance update the LP constraint equations and go to 3; otherwise resolve the power flow equations.
6. If any of the control variables changed during step 3 go to 2. Otherwise the solution has been reached; calculate the final solution cost and the bus/constraint marginal prices.

The key to making the LP OPF fast is to minimize the number of constraints explicitly included in the LP basis. Most of the system constraints are enforced during the power flow solution. These include the power flow equations, generator reactive power limits, LTC transformer limits and switched capacitor limits. The LP basis then only includes the power balance constraints for the areas on OPF control, and any binding network inequality constraints or any network inequality constraints that are likely to become binding during the iteration. Note that while voltage limits were not enforced by the LP, automatic reactive control devices including LTC transformers and switched shunts were included in the power flow solution. These devices helped substantially to maintain a reasonable system voltage profile.
Once an optimal solution has been determined, the marginal costs for enforcing the different constraints can be determined from the control costs and the final LP basis matrix:

\[ \lambda^T = c_B^T B^{-1} \]

where

- \( \lambda^T \) = marginal costs of enforcing constraints
- \( c_B^T \) = control costs
- \( B \) = LP basis matrix

The bus MW marginal costs (also known as the locational marginal prices or LMPs) are then computed as

\[ \lambda_{\text{buses}}^T = \lambda^T S \]

where

- \( \lambda_{\text{buses}}^T \) = bus MW marginal costs
- \( S \) = matrix of sensitivity of bus MW injections to the set of constraints

Similar to what is currently done in the LMP calculation for the PJM system [19], the incremental impact of system losses was not considered here (the actual system losses were, of course, included in the power flow solution). With this approximation in the absence of transmission system congestion, the bus marginal prices in an entire area would be identical. However, when congestion is present the marginal prices vary depending on the constraint locations the area no longer has a single marginal price.

## 4. Administered vs Free Trade Results

The OPF was then used to compare two different operating philosophies, the administered trade model and the free trade model. The administered trade model supposes that the operating areas in the model import or export the amounts initially specified in the FERC file\(^1\). Thus in this scenario each area was self optimized; that is, it was optimally dispatched while simultaneously enforcing its area interchange constraint and the limit constraints on its lines. In total 74 areas were included in the optimization, with LMPs computed at slightly more than 30,600 buses. This resulted in a solution with a total operating cost of $8,148,700/hour. The LMPs ranged from a high of $700MWh to a low of -$72MWh with less than 1% having values above $100MWh and only three buses having negative values\(^2\). The average LMP was $35.79MWh while the standard deviation was $20.60MWh. Because of the area interchange constraints the area average LMPs varied considerably, from a high of $99.90MWh to a low of $9.47MWh. At the solution the flows on 21 lines were being enforced as binding constraints; this represents only about 0.05% of the 40,000 lines modeled in OPF areas.

Figure 2 contours the regional variation in the LMPs at approximately 6700 of the 31,600 buses [20], [21] using a color range of between $10MWh and $50MWh. The patchwork appearance of the contour is due, for the most part, to the area constraints. These heterogeneous costs are what open the possibility of lowering system cost by shifting from high (marginal) cost generators to lower (marginal) cost generators.

Next the system was modeled using the free trade model in which the area interchange constraints between the U.S. operating areas were relaxed (those with Canadian areas were still enforced). Thus the entire U.S. portion of the Eastern Interconnect was treated as though it were a single operating area. The intent of this approach is to approximate a perfectly functioning RTO.

As expected, relaxing the area constraints resulted in a lower operating cost, with the value dropping by about 3.3% from $8,148,700/hour down to $7,879,000/hour. With the area constraints relaxed power was free to flow from the low cost areas to those with higher costs. The largest changes occurred in the Virginia Power control area, which increased its exports by almost 1800 MW, while Commonwealth Edison and the Florida Control area saw their imports increase by 1665 and 1445 MW respectively. This resulted in the average area LMPs converging as well, with the highest value now just $41.57MWh and the lowest $29.03MWh.

The most surprising result of this study was the degree to which it could be possible to operate the entire Eastern Interconnect as a single control. While the number of congested lines increased slightly from 21 to 30, the LMPs were surprising uniform across the region. Compared to the administered trade model the average LMP decreased slightly from $35.79MWh to $33.35,

\(^1\) The FERC 715 files only specifies the total imports or exports for each area; bilateral transactions are NOT specified.

\(^2\) Negative LMPs simply indicate that buses on one side of a constraint should reduce generation or increase there load. Negative LMPs occurred on the PJM system during each of the three summer months in 1999, reaching $-199.33MWh in July.
while the standard deviation decreased substantially from $20.60\text{MWh}$ to $6.27\text{MWh}$. This change is even more dramatic when comparing Figure 2 to Figure 3, which contours the new LMPs using the Figure 2 color scale. Figure 4 presents a graphical comparison of the LMP variation between the two cases. Finally, even with a much narrower color scale of between $28\text{MWh}$ and $42\text{MWh}$ Figure 5 shows there is still little regional variation in the LMPs.

5. Sensitivity of Results to Model Variation

Before concluding it is important to discuss the sensitivity of the results to model parameters. The results from any engineering study can, of course, only be as good as model from which they are derived. In probing the sensitivity of the previous results to model errors what we have found is in some areas the system is fairly robust, with outages of large generators or lines having relatively minor impacts on system prices, while in other areas such outages can have significant impacts on system prices. Overall, given that the case models a peak demand condition, the system is certainly stressed. But as indicated by the supply curve shown in Figure 6 (with the y-axis showing generation cost in $\text{MWh}$ and the vertical line showing the current load), generation is available on the grid. High regional prices can therefore be attributed to transmission system constraints.

For example, the outage of a 1200 MW unit in the TVA area (at bus “N1 WBN”) had a relatively modest impact on the LMPs, increasing the average price in TVA by only
about $0.80\text{MWh}$. In contrast, the outage of a 890 MW unit in the Florida area (at bus “CR RV G3”) caused the prices in that area to soar, increasing from an average of $32.27\text{MWh}$ to $45.87\text{MWh}$. Figure 7 contours the new LMPs using the same scale as Figure 5 of between $28\text{MWh}$ and $42\text{MWh}$, while Figure 8 presents a Florida close-up with a color scale of between $30\text{MWh}$ and $50\text{MWh}$. Here the high price differences are due to congestion on several relatively low voltage lines (138 kV, 115 kV and 69 kV).

7. Conclusion

The results of this study support FERC’s contention that Regional Transmission Organizations acting in the public interest could bring significant benefits to electricity consumers. The model indicates that the Eastern Interconnect could be operated as a single system with only a minor increase in fully loaded lines under conditions of peak summer demand. That result holds without any increase in transmission investment to support the increase in inter-regional trade. Under peak demand, summer prices drop about 8% and, more importantly, the standard deviation of prices drops about 70%. Overall system costs decline a bit over 3% which is considerable considering that most generators must be dispatched to meet peak demand.

There is no inherent reason for the Eastern Interconnect to experience San Diego’s fate if major equipment is available as planned. Under expected equipment availability, the Eastern Interconnect has sufficient generator capacity and transmission capability to meet peak demands at manageable prices. Given a chance, the existing transmission system is capable of flattening the price profile from the Rockies to the Atlantic.

If equipment fails or is withheld from the market, there would be high price areas that trade could not eliminate. For example, if several Florida generators were to become unavailable, either due to mechanical problems or there being withheld, prices through much of the state could increase substantially. Consequently there may be even more pressure for component reliability as the electrical system becomes more tightly integrated.

The critical question now is not whether RTOs have the potential for improving efficiency. The critical question is will they? Can RTOs be motivated to put system efficiency as their paramount goal? As the Florida example shows there remain opportunities for price increases even with free trade. A less-than –public spirited RTO would be capable through “technical” standards of furthering private gain at the expense of the general interest. The public policy problem is to identify the RTO’s interest with the public’s.

8. Acknowledgement and References

The generator cost data base was constructed by Mr. Thomas Leckey of the Energy Information Administration and Ms. Marilyn Walker of the Department of Justice. A table matching NERC Names and reference numbers to those used by the EIA and U.S. Environmental protection agency are available from the authors on request.


[2] See for example, Quint, Arnold and Young, W, Request of the New York Independent System Operator, Inc. for Suspension of Market Based Pricing for 10-minute Reserves and to Shorten Notice Period, March 27, 2000, file no: 55430.000001 who report to FERC “…substantial evidence that the levels of bids and quantities offered, and the resulting prices, have deviated substantially
from...[what]. would be expected if the 10-minute reserves markets were workably competitive.” pages 1-2


[7] ibid. page 32

[8] ibid. page 32

[9] The OPF model is intended as a research tool and is available from the authors upon request. The model requires PowerWorld Simulator (www.powerworld.com) to run.


[15] mrd.nerc.com


