Modeling of Suppliers’ Learning Behaviors in an Electricity Market Environment

Nanpeng Yu, Student Member, IEEE  Chen-Ching Liu, Fellow, IEEE  Leigh Tesfatsion, Member, IEEE

Abstract—The Day-Ahead electricity market is modeled as a multi-agent system with interacting agents including supplier agents, Load Serving Entities, and a Market Operator. Simulation of the market clearing results under the scenario in which agents have learning capabilities is compared with the scenario where agents report true marginal costs. It is shown that, with Q-Learning, electricity suppliers are making more profits compared to the scenario without learning due to strategic gaming. As a result, the LMP at each bus is substantially higher.

Index Terms—Electricity Market, Supplier Modeling, Competitive Markov Decision Process, Q-Learning.

I. INTRODUCTION

S trategic bidding is an important issue in the wholesale electricity market. Electricity prices change as a result of transmission network congestion, which may be caused by strategic bidding or heavy load. For PJM, the total congestion costs were $750 million in 2004 and $2.09 billion in 2005. Learning may also allow larger electricity suppliers to use their market power and bid strategically. In California [1], electricity expenditure in the wholesale market increased from $2.04 billion in the summer of 1999 to $8.98 billion in the summer 2000. It is estimated that 59% of this increase was due to increased market power. Learning to bid in the wholesale market is also crucial for smaller electricity suppliers who have a desire to recover the cost of their investment in generation by avoiding over or under-bidding. Research on the learning behavior of electricity suppliers will provide insights into gaming on the market and the power grid. This may allow market designers to develop appropriate market rules to discourage strategic bidding and enhance market efficiency.

Researchers have used various learning methods to model electricity suppliers’ behavior. The learning configuration for suppliers in [2] is a version of a stochastic reactive reinforcement learning developed by Alvin Roth and Ido Erev. In this configuration, agents have finite fixed action domains, are backward looking, and rely entirely on response learning. Average reward $\gamma$-greedy reinforcement learning was used in [3] to model the learning and bidding processes of suppliers. With this scheme, each supplier uses greedy selection as its action choice rule with probability $(1-\gamma)$, and random action selection with probability $\gamma$. Thus, $\gamma$ determines the trade-off between exploitation of available information and exploration of untested actions. The trading agents modeled in [4] use GP-Automata to compute their bidding strategies for the current market conditions. Finally, in the area of multi-agent reinforcement learning, Nash Q-Learning [5] was designed specifically as a potential technique to represent agents’ learning behavior in a multi-agent context.

This paper is focused on how to model electricity suppliers’ learning behavior by Q-Learning. In addition, load serving entities that have demand-side response are considered in this multi-agent electricity market environment.

II. DAY-AHEAD MARKET MODEL

The Day-Ahead electricity market is modeled as a multi-agent system with three types of agents interacting with one another. These agents are supplier agents, Load Serving Entities (LSEs), and a market operator (MO). On the morning of day D supplier agents submit supply offers and LSEs submit demand bids for the Day-Ahead Market to the MO. During the afternoon, the MO runs a market-clearing algorithm (similar to an optimal power flow) to match supply to demand and determine dispatch schedules and LMPs. At the end of the process, the MO sends the dispatch schedules and LMPs to the supplier agents and LSEs for day D+1. The interaction among the MO, LSEs and supplier agents is shown in Fig. 1.

A. Load Serving Entity Model

LSEs purchase bulk power from the Day-Ahead market to serve load. Without loss of generality, it is assumed that LSEs do not have generation units and one LSE only serves load at one location in the power system. Suppose that the number of LSEs in the Day-Ahead market is J. On day D, LSE j submits a load profile for day D+1. This load profile specifies 24 hours of MW power demand $P_{ij}(H)$, H= 0, 1 … 23.
It is assumed that demand-side response is available to LSEs. The demand-side response works as follows. If the day D peak hour LMP, \(LMP_{ij}(H_{\text{peak}})\), at the bus where LSE \(j\) is serving load, is higher than a critical value, then LSE \(j\) reduces its peak hour demand for day \(D+1\) by 2%. If this LMP does not exceed the critical value, LSE \(j\) will not curtail its peak hour demand. Therefore, each LSE has two states. If the LMP at its node is below the critical value, it is in state 0, i.e., \(S_{ij} = 0\), and it will submit a normal load profile for day \(D+1\). If the LMP at its node is above the critical value, it is in state 1, i.e., \(S_{ij} = 1\), and it will submit a curtailed load profile for day \(D+1\).

### B. Supplier Agent Model

Supplier agents sell bulk power to the Day-Ahead market. For simplicity, it is assumed that each supplier agent has only one generation unit. However, this model can be extended to permit suppliers with multiple generation units. Suppose the number of supplier agents in the Day-Ahead market is \(I\), and the MW power output of generator \(i\) in some hour \(H\) is \(G_{ip}\). Generator \(i\) has lower and upper limits denoted by \(p_{\text{min}}\) and \(p_{\text{max}}\), for its hourly MW power output. For generator \(i\), the hourly total production cost \(C_i(p_{Gi})\) for production level \(p_{Gi}\) is represented by a quadratic form:

\[
C_i(p_{Gi}) = a_i \cdot p_{Gi} + b_i \cdot p_{Gi}^2 + F_i
\]

where \(a_i, b_i\) and \(F_i\) (pro-rated fixed cost) are given constants. By taking derivatives on both sides of (1), the marginal cost function for Generator \(i\) is obtained, i.e.,

\[
MC_i(p_{Gi}) = a_i + 2 \cdot b_i \cdot p_{Gi}
\]

On each day \(D\), the supplier agents submit to the Day-Ahead market a supply offer for day \(D+1\) that includes two components. The first component is its reported marginal cost function given by:

\[
MC_i^R(p_{Gi}) = a_i^R + 2 \cdot b_i^R \cdot p_{Gi}
\]

The second component is its hourly MW power output upper limit, denoted by \(p_{\text{max}}^g\). Suppose, on day \(D\), supplier agents submit their supply offers for day \(D+1\) to the MO, and the market clearing program calculates LMPs and dispatch schedules. Let \(LMP_{Gi}(H)\) denote the LMP for hour \(H\) at the bus where supplier \(i\)'s generation unit is located, and let \(p_{Gi}^*(H)\) denote the MW power output for hour \(H\) in the dispatch schedule posted by the MO. Supplier agent \(i\)'s profit on day \(D\) is obtained by summing 24 hours of profits on that day:

\[
\pi_{id} = \sum_{H=0}^{23} [p_{Gi}^*(H) \cdot LMP_{Gi}(H) - C_i(p_{Gi}^*(H))]\]

The accumulated profit of generator \(i\) on day \(D\) is given by:

\[
AP_i(D) = AP_i(D-1) + \pi_{id}
\]

### C. Market Operator Model

The MO for this Day-Ahead market is responsible for clearing the market based on the information submitted by LSEs and supplier agents. The MO uses a market clearing algorithm to determine the LMP at each bus and MW power output for each generation unit at each hour. Since only MW power is considered in this model, a DCOPF problem can be formulated as follows:

\[
\min \sum_{i=1}^{I} (a_i^g \cdot p_{Gi} + b_i^g \cdot p_{Gi}^2)\]

subject to

\[
P_k - P_{gk} + P_{dk} = 0, \quad k = 1, \ldots, B
\]

\[
|H \delta| \leq F_{\text{max}}
\]

\[
p_{\text{min}}^g \leq p_{Gi} \leq p_{\text{max}}^g, \quad i = 1, \ldots, I
\]

where \(B\) denotes the total number of buses in the system, \(P_k\) represents the net power injection at bus \(k\), \(P_{gk}\) denotes the total MW power generation at bus \(k\), \(P_{dk}\) is the total MW demand at bus \(k\), \(H\) denotes the line flow matrix, \(\delta\) denotes
the vector of voltage angle differences, and \( F_{\text{max}} \) is the vector of maximum line flows.

The objective of the DCOPF is to minimize the total variable generation cost based on supplier offers and LSE bids. The constraints are MW power balance constraints for each bus \( k = 1, ..., N_b \), MW thermal limit constraints for each line, and MW production limits for each generator \( i = 1, ..., I \). The DCOPF program of MATPOWER [6] applicable to large-scale power systems is used in this research. The simulation platform is programmed in MATLAB.

### III. MODEL FOR SUPPLIERS’ LEARNING BEHAVIOR

Q-Learning, developed by Watkins [7], is a form of anticipatory reinforcement learning that allows agents to learn how to act in a controlled Markovian domain. A controlled Markovian domain implies that the environment is Markovian in the sense that the state transition probability from any state \( x \) to another state \( y \) only depends on \( x \), \( y \) and the action \( a \) taken by the agent, and not on other historical information. It works by successively updating estimates for the Q-values of state-action pairs. The Q-value \( Q(x, a) \) is the expected discounted reward for taking action \( a \) at state \( x \) and following an optimal decision rule thereafter. If these estimates converge to the correct Q-values, the optimal action to take in any state is the one with the highest Q-value.

By the procedure of Q-Learning, in the \( n^{th} \) step the agent observes the current system state \( x_n \), selects an action \( a_n \), receives an immediate payoff \( r_n \), and observes the next system state \( y_n \). The agent then updates its Q-value estimates using a learning parameter \( \alpha \) and a discount factor \( \gamma \) [7] as follows:

- If \( x = x_n \) and \( a = a_n \),
  \[
  Q_n(x, a) = (1 - \alpha_n)Q_{n-1}(x, a) + \alpha_n[r_n + \gamma Q_{n-1}(y_n)]\tag{10}
  \]
- Otherwise,
  \[
  Q_n(x, a) = Q_{n-1}(x, a) \tag{11}
  \]
- where \( V_{n-1}(y) = \max_b \{Q_{n-1}(y, b)\} \equiv \max_b \{Q_{n-1}(y, b)\} \tag{12}\)

It is proven by Watkins in [8] that if (1) the state and action-values are discrete, (2) all actions are sampled repeatedly in all states, (3) the reward is bounded, (4) the environment is Markovian and (5) the learning rate decays appropriately, then the Q-value estimates converge to the correct Q-values with probability 1.

In a multi-agent context such as the Day-Ahead market model presented in this paper, the system might not be Markovian because state transition probabilities might depend on actions taken by other agents. Therefore, there is no guarantee that Q-Learning will converge to the correct Q-values.

A Generation Company (GENCO) usually has several generation plants located at different buses of the system. For simplicity, Q-Learning is used to model electricity suppliers that are assumed to have only one generation unit. Nevertheless, by a similar approach, Q-Learning could be implemented for supplier agents with multiple generation units at different locations.

A novel approach to the implementation of Q-Learning for a supplier agent is presented here. The supplier agent views the Day-Ahead market as a complex system with different states. The system state on day \( D \), \( X^D \), is defined as a vector for the states of all LSEs. Hence the state vector on day \( D \) can be expressed as \( X^D = \{S_{1)^{(1)}, S_{12}, ..., S_{JJ}\} \), where \( J \) is the number of LSEs. The cardinality of the state space is \( 2^J \) since each LSE has two states, i.e., reduced peak load or not based on demand-side response. Electricity suppliers might have market power. Thus, it is assumed that supplier agents are capable of forecasting the LSEs’ states. In other words, the state vector is predictable by the supplier agents.

The action domain of supplier agent \( i \), \( AD_i \), is defined as a vector of bidding information. This vector consists of the marginal cost function parameters \( a^b_i \) and \( 2 \cdot b^b_i \), and the hourly MW output upper limit \( p \cdot \text{max}^b_i \). The cardinality of the action domain, \( M^a \times M^b \times M^\text{max}^b \), is given by the product of the number of possible \( a^b_i \), \( 2 \cdot b^b_i \) and \( p \cdot \text{max}^b_i \) values.

Consider the beginning of each day \( D \). A supplier agent first makes a prediction of the system state, which is represented by \( x \). It next chooses an action according to a Gibbs/Boltzmann probability distribution, i.e.,

\[
Q(x, a) = d\sum_{b \in AD_i} e^{Q(x, b) / T_D} \tag{13}
\]

where \( T_D \), which depends on \( D \), is a temperature parameter that models a decay over time.

Having chosen an action \( a \), the supplier agent will submit its supply offer to the MO. Once the market is cleared, the supplier agent will receive its reward, which is the profit for day \( D+1 \). Then the agent will use this reward to update its Q-value estimates according to equations (10) to (12). The Q-value estimates of an agent are said to have converged if under all states \( x \) the agent chooses some action with probability 0.99 or higher. If the Q-value estimates of all the agents have converged, the simulation terminates.
The parameters that are used to implement the Q-Learning algorithm are set in the following way:
Discount factor $\gamma = 0.7$
Learning parameter $\alpha$ for a state-action pair $(x, a)$ is set to be $\alpha = \frac{1}{T_{(x,a)}}$, where $T_{(x,a)}$ is the number of times that action $a$ has been taken in state $x$.
$\omega = 0.77$

The temperature parameter $T_D$ is given by:
$\frac{1}{T_D} = 1.7 \times 10^{-9} \times (D)^6$, where $D$ is the number of days that have currently been simulated.
The cardinality of the action domain is $M^a \times M^b \times M^{\max} = 4 \times 4 \times 4$, in which $a^g$ and $b^g$ range from 1 to 3 times their true values, and $p^{\max}$ ranges from 97% to 100% of the true upper limit.

IV. NUMERICAL STUDY

A. Test Case
The 5-bus transmission grid used here for simulation is taken from ISO-NE/PJM training manuals, where it is used to illustrate the determination of Day-Ahead market LMP solutions. A one-line diagram of the grid is shown in Fig. 2. Daily LSE load profiles are adopted from the dynamic 5-bus example in [2]. Line capacities, reactance levels, and generator cost data are also adopted from [2].

Detailed solution values for the scenario in which suppliers submit their true production data to the MO (“the no-learning scenario”) are given in [2].

This study simulates two Q-Learning scenarios for this 5-bus test case. In the first scenario the LSEs have relatively low critical values for curtailing demand, whereas in the second scenario they have relatively high critical values. Simulation results for these learning scenarios are compared with the no-learning scenario.

B. Review of Results from the No-Learning Scenario
In the no-learning scenario analyzed in [2], each generator submits a supply offer that includes its true marginal cost function and its true generation upper limit. The MW production level of each generator and the LMP at each bus that are cleared by the MO based on true cost data from generators are depicted in Fig. 3(a) and Fig. 4(a).
line between buses 1 and 2 hits its upper thermal limit, and Generator 3 is dispatched at its upper production limit. Therefore, generator 4 that has the highest variable generation cost has to be dispatched to meet the demand. This results in a huge price spike at buses 2 and 3 at hour 17 that is about double of their LMP values at hour 16.

Since the system can be in several states, it does not have to stay in one single state in the long term. Rather, it may visit some states periodically or it may not even converge to a periodic pattern. Therefore, one has to define convergence in a different way. The Day-Ahead market is said to be convergent if, at any state, each generator chooses one action in that state with probability 0.99 or higher.

Due to the probabilistic nature of the learning algorithm, the simulation does not converge to the same values for each run. In order to average out the random effects across different runs, 10 simulation runs are performed for each scenario and the mean values from the runs are reported.

In scenario one, LSEs have little tolerance for high LMPs. Their critical values for curtailing demand are only slightly higher than the LMPs that they will pay in the no-learning scenario. The critical values for LSEs are 115.5($/MWh), 98.0($/MWh), and 47.5($/MWh). Simulation results show that most of the time the system stays in state 8, in which every LSE is curtailing demand every day. This implies that generators are using very aggressive bidding strategies, and making full use of their market power. In this case, generators actually are making more profits by moving the system to state 8 because, even in the situation of less demand in peak hour, the generators are still able to raise prices higher than the critical values of the LSEs. In all 10 simulation runs, all five generators converge by day 230. The average number of days before convergence is 117.1. In some cases the system moves back and forth between two states in a cyclical pattern of convergence.

In scenario two, the LSEs have high tolerance for high electricity prices. Their critical values for curtailing demand are higher than the critical values in scenario one. The critical values for LSEs in this case are 135.5($/MWh), 115.5($/MWh), and 55.5($/MWh). In all 10 runs, all five generators converge by day 325. The average number of days before convergence is 238.7. Simulation results show that most of the time, the system ends up visiting state 1 and state 8 in turn. The day of convergence comes later if the system keeps visiting more than one state. It can be shown from the simulation results that, in fact, Q-Learning allows the generators to take advantage of the LSEs, whose demand-side response only has one-day memory. First, by submitting low supply offers, the generators make sure that the LSEs do not curtail their demand tomorrow. Afterward they submit high supply offers and profit significantly from the LSEs that decrease their peak hour demand tomorrow. Then the generators submit a low supply offer again and so on. The simulation results show that Q-Learning helps generators make more profits by sacrificing today’s benefit for more profits in the future. This scenario is a good illustration of anticipatory reinforcement learning.

Differences between the learning scenarios and the no learning scenario are discussed below. Furthermore, it is desirable to know to what extent Q-Learning is capable of

C. Results from the Two Learning Scenarios
Assume that the generators do not have to report their true marginal costs to the MO. Instead, the profit-seeking generators use Q-Learning to learn how to bid strategically to make more profits.
helping generators exercise market power. Fig. 3(b) and (c) depict the mean values of MW production in learning scenarios 1 and 2, along with the corresponding simulation results obtained in the no-learning scenario. In the no-learning scenario, generator 4 is only dispatched at the peak hour. In both learning scenarios, in some simulation runs generator 4 is not dispatched. This is true when each generator is submitting an aggressive supply offer so that generator 4 is still the most expensive. However, in some simulation runs generator 4 chooses to submit less aggressive supply offers so that it becomes a relatively cheaper unit.

The 24-hour mean LMP values for the learning scenarios 1 and 2 are shown in Fig. 4(b) and (c) along with the 24-hour LMP values for the no-learning scenario. In the no-learning scenario, the price spike at hour 17 is obvious. Although the LMPs in the learning scenarios 1 or 2 are substantially higher than for no-learning, the price fluctuation around the peak hour is much less. This finding is similar to the finding of Sun and Tesfatsion [2], who used reactive reinforcement learning to model the learning process of generators. However, since the sets of actions are different, one cannot draw a definitive conclusion about the learning techniques used in the two studies.

Figure 5 shows that the mean of the total profit gained by the generators in each learning scenario is much higher than what they made in the no-learning scenario. In fact, in the no-learning scenario the generators are not able to recover their fixed cost because they only covered their variable costs in their supply offers. This fact demonstrates that Q-Learning helps the generators to learn to exercise their potential market power to maximize their profits. It can be observed in Fig 5 that, during peak hour 17, the generators are making more profits in learning scenario 2 than they are in learning scenario 1. The high level of tolerance for price spikes of the LSEs in learning scenario 2 gives the generators more opportunities to manipulate the market.

V. CONCLUSION

This paper presents a novel application of Q-Learning to model electricity suppliers’ learning behavior in a multi-agent electricity market environment. Simulation results show that Q-Learning helps electricity suppliers learn how to bid strategically under the condition of a simple demand-side response model. With Q-Learning capabilities, electricity suppliers find a way to make more profits in the long term by sacrificing their immediate profits.

Q-learning has some limitations. It assumes a finite domain of actions. Also, the Q-learning model developed in this research assumes that electricity suppliers do not explicitly take into account the presence of other electricity suppliers in their choice environments. These limitations will be relaxed in future extensions of this research by adopting more advanced learning algorithms that enable agents to learn about other agents’ strategies. If the bidding data of electricity suppliers are publicly released by the MO, this should help each electricity supplier to form conjectures regarding other electricity suppliers’ bidding behaviors.

VI. REFERENCE


VII. BIOGRAPHIES

Nanpeng Yu received his B.Eng. from Tsinghua University, Beijing, China, in 2006. He is currently pursuing the Ph.D. degree at Iowa State University.

Chen-Ching Liu is currently Palmer Chair Professor of Electrical and Computer Engineering at Iowa State University. Dr. Liu serves as President of the Council on Intelligent System Applications to Power Systems (ISAP). He is a Fellow of the IEEE.

Leigh Tesfatsion is Professor of Economics and Mathematics at Iowa State University. She serves as Associate Editor for several economics and mathematics journals and is a Member of the IEEE.