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An Advance Retail Electricity Market for Active Distribution Systems and home Microgrid Interoperability Based on Game Theory

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Abstract

The concept of active distribution network has emerged by the application of new generation and storage technologies, demand flexibility, and communication infrastructure. The main goal is to create infrastructure and algorithms to facilitate an increased penetration of distributed energy resources, application of demand response and storage technologies, and encourage local generation and consumption within the distribution network. However, managing thousands of prosumers with different requirements and objectives is a challenging task. To do so, market mechanisms are found to be necessary to fully exploit the potential of customers, known as Prosumers in this new era. This paper offers an advanced retail electricity market based on game theory for the optimal operation of home microgrids (H-MGs) and their interoperability within active distribution networks. The proposed market accommodates any number of retailers and prosumers incorporating different generation sources, storage devices, retailers, and demand response resources. It is formulated considering three different types of players, namely generator, con-

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sumer, and retailer. The optimal solution is achieved using the Nikaido-Isoda Relaxation Algorithm (NIRA) in a non-cooperative gaming structure. The uncertainty of the generation and demand are also taken into account using appropriate statistical models. A comprehensive simulation study is carried out to reveal the effectiveness of the proposed method in lowering the market clearing price (MCP) for about 4%, increasing H-MG responsive load consumption by a factor of two, and promoting local generation by a factor of three. The numerical results also show the capability of the proposed algorithm to encourage market participation and improve profit for all participants.

Keywords: Active distribution network, retail electricity market, game theory, Nikaido-Isoda relaxation algorithm, home microgrid, microgrid interoperability.

1 Nomenclature

Acronyms

DR	demand response
DMS	distribution management system
DSO	distribution system operator
DER	distributed energy resource
DGU	dispatchable generation unit
DNO	distribution network operator
EMS	energy management system
ES	energy storage
ES+, ES-	ES during charging/ discharging mode
EV	expected value
HEMS	home energy management system
H-MG	home microgrid
MCEMS	modified conventional energy management system
MCP	market clearing price
MO	market operator
MT	microturbine
NDU	non-dispatchable unit
NIRA	Nikaido-Isoda/relaxation algorithm
NRL	non-responsive load
PBUC	price-based unit commitment
PV	photovoltaic
RLD	responsive load demand
SOC	state-of-charge
TGE	total generated energy
TCE	total consumed energy
TOAT	taguchi's orthogonal array testing
WT	wind turbine

Sets and Indices

θ, β	load demand curve coefficients
-----------------	--------------------------------

a^j, b^j, c^j	coefficients of cost function of DGU in H-MG j
$n/n/n''/n$	number of generators / consumers / retailers/ H-MGs
N_s	number of uncertainty scenarios
π^{ES+}	consumer's bids for battery during charging, i.e., ES+ (\$/kWh)
Δt	time interval, hour

Constants

ζ^{ES}	efficiency of the battery
$\bar{P}^{(\cdot),j}, \underline{P}^{(\cdot),j}$	maximum/minimum output power of (.) in H-MG j (kW)
$\overline{SOC}^{ES,j}, \underline{SOC}^{ES,j}$	maximum/minimum state-of-charge (SOC) limits of ES in H-MG j (%)

Parameters

$\pi_t^{i''-}, \pi_t^{i''+}$	offer price of retailer i'' at time t for selling/buying to/from H-MGs (\$/kWh)
$P_{t,s}^{(\cdot),j}$	output power of resource (.) under scenario s in the H-MG j (kW)
$\rho_{t,s}^{(\cdot),j}$	probability of scenario s of resource (.) in the H-MG j

Functions

C_t^i, R_t^i, J_t^i	cost/revenue/profit functions of generator i at time t (\$) ($i \in \{1, 2, \dots, n\}$)
$C_t^{A,j}$	cost of producing power by (A) in H-MG j (\$)
$C_t^{i''}, R_t^{i''}, J_t^{i''}$	cost/revenue/profit functions of retailer i'' at time t (\$) ($i'' \in \{1, 2, \dots, n''\}$)
$J_t^{i'}$	cost functions of consumer i' at time t (\$) ($i' \in \{1, 2, \dots, n\}$)
$\pi_t^{H-MG,j}$	offer price of H-MG j at time t (\$/kWh)
$EV_t^{(\cdot),j}$	expected value of energy produced by (.) in H-MG j at time t
$Z(x)$	optimum response function in NIRA
Φ_i	pay-off function of each player i in NIRA
$\Psi(x, y)$	Nikaido-Isoda function

Decision variables

$P_t^{(\cdot),j}$	output power of (.) in H-MG j during the time period t (kW)
X	collective strategy set
x	action of each player
$SOC_t^{ES,j}$	SOC of ES in H-MG j at time t (%)

5 1. Introduction

6 While **the** ever-increasing penetration of distributed renewable generation within
7 distribution networks threatens reliable and secure power system operation as a
8 whole, numerous opportunities are **emerging which** actively engage **distribution**
9 systems and consumers in the power system operation. To exploit **these** new op-
10 portunities, two concepts have been developed as the major enabling ideas. First,
11 the prosumer concept was born in recent years [1–4] as the ability of electricity
12 consumers to become an active agent in the power system’s operation through lo-
13 cal generation, demand flexibility, and storage. The second concept was H-MG
14 [5–11] which **is supposed to** host a variety of local generation, demand flexibility
15 resources, and storage devices to encourage **the** possibility of short- or long-term
16 autonomous operation of the system in severe conditions [12, 13]. Combining these
17 two enabling concepts necessitates an advanced retail electricity market with new
18 functionality to enable interactions around energy and ancillary services products.
19 The new market structure is expected to be scalable to accommodate any number
20 and type of participants, and provide **the** means to encourage local interactions
21 among different prosumers. Additionally, it should offer a comprehensive solution
22 to facilitate the exploitation of available flexibility for the benefit of large power
23 systems and end-users. The proposed market should also be able to handle large
24 number of players, as **is** likely to happen at the distribution level.

25 **The** application of H-MG energy management systems **s** with (e.g., [1, 3–5]) or
26 without energy storage (ES) (e.g., [7–9, 14, 15]), and H-MGs interoperability (e.g.,
27 [10, 11, 16]) have been **investigated in numerous research papers** in the past. De-
28 veloping general strategies for retail market operation have also been addressed in
29 [17–25]. Colored Petri net technology [21], different game theory approaches us-
30 ing NIRA algorithm [22, 24], Shapely value [24, 26], and **Cournot** model [25] are
31 among the methods which have been utilized for retail electricity market design. In
32 [26], a retail market based on game theory was proposed for H-MG interoperabil-
33 ity. In their proposed structure, all consuming participants were represented by a
34 single player (i.e., aggregator) which does not appreciate different objectives and

35 constraints among participants and the devices. Additionally, **this formulation only**
36 **allows** one retailer in the proposed market which does not cope with the reality.
37 Furthermore, using Cournot equilibrium model in [26], decision making is limited
38 to only quantitative variables which is not desirable. In [27], a market structure
39 was proposed as a part of an economic dispatch model for H-MG interoperability.
40 Two types of players, including seller H-MGs as leaders and buyer H-MGs as follow-
41 ers, were introduced which essentially limits operational capability of the method.
42 Moreover, **the** principles of Transactive Energy was used in [28–31] to develop opti-
43 mal economic dispatch of H-MGs, charge optimization and optimal participation of
44 electric vehicles. Only two types of players, namely electric vehicles and utility, were
45 considered in [30, 31]. In [30], the cost of electric vehicles' charging and power
46 losses of the distribution network are optimized. **Thus, the required functionality is**
47 **not developed in this method for a large pool of players of different types.**

48 To summarize, the following shortcomings can be identified in the existing lit-
49 erature related to the retail electricity market at the distribution level:

- 50 • Lack of a general framework for analyzing and modeling players' behavior
51 in a deregulated competitive electricity market at the residential distribution
52 level in [10, 15, 16, 32–35].
- 53 • No investigation into the impact of prosumers on the economic operations of
54 future residential distribution systems through probabilistic methodologies
55 [18, 20, 21, 25].
- 56 • No supply bidding mechanism for the players in the electricity market [15,
57 16, 22, 24–26].
- 58 • No MCP calculation based on the Nash equilibrium point, market bids, and
59 double-sided auction in [15–17, 22, 24–26].
- 60 • No implementation of demand response (DR) and ES in an efficient manner
61 to exploit full capabilities of these resources [22, 24, 26].
- 62 • No solution is proposed to guarantee the benefit of all players with competing
63 objectives in a multiple ownership environment in [15–17, 21, 30, 31] while
64 the proposed solutions in [18, 19, 25, 28, 29] do not guarantee the optimality
65 of the final solution.

- 66 • In [15, 16, 22, 24, 26], retailers are not considered as players in the market
67 for all players.
- 68 • Interoperability of H-MGs with each other as well as retailers are not consid-
69 ered in [27, 36].

70 In this paper, a comprehensive retail market is developed within the realm of
71 prosumers' and active distribution networks' era. Game theory is adopted to es-
72 tablish a scalable solution where any number of players can participate in trad-
73 ing energy. In order to provide a comprehensive solution, H-MG concept is imple-
74 mented which accommodates local non-dispatchable/dispatchable generation units
75 (NDU/DGU), ES, and responsive load demand (RLD). The proposed market struc-
76 ture encourages local generation consumption. Moreover, the proposed market fa-
77 cilitates interoperability of H-MGs, where excess energy of one H-MG can be stored
78 or momentarily consumed in another H-MG. The optimal operation of the system
79 with multiple H-MGs leads to the simultaneous optimization of H-MGs and distri-
80 bution network pay-off functions. In this study, the Nikaido-Isoda/Relaxation Algo-
81 rithm (NIRA) is used to solve the optimization problem based on a non-cooperative
82 game. Also, the stochastic nature of load demand and renewable generation is
83 considered in the proposed market.

84 The major contributions of this paper can be summarized as follows:

- 85 • Proposing an advanced electricity market for active distribution networks
86 based on game-theory;
- 87 • Handling multiple retailers which increases competition and decreases elec-
88 tricity prices for the end-users;
- 89 • Modeling interaction among non-cooperative players with competing objec-
90 tives through game-theory which guarantees fairness of the market schedules
91 by achieving Nash equilibrium;
- 92 • Accommodating both DR resources and storage devices in the market opera-
93 tion to achieve a comprehensive solution exploiting all flexibilities.

94 This paper is organized as follows: The concept of H-MG is developed and ex-
95 plained in Section 2 while conceptual design of the proposed market is outlined
96 in Section 3. Section 4 presents structure of price-based unit commitment (PBUC)
97 unit for retailers participation in the proposed market. The problem formulation
98 for the NIRA algorithm is given in Section 5 while the MCP calculation based on a
99 double-sided auction is developed in Section 6. Simulation results and discussions
100 are presented in Section 7. Finally, the paper is concluded in Section 8.

101 2. H-MG Concept

102 H-MG, in this paper, refers to a green building that could have generation re-
103 sources, storage devices, and flexible demand, as shown in Fig. 1. Similar to conven-
104 tional microgrids, green buildings are able to independently supply their required
105 power to some extent [37–40]. Additionally, green buildings can represent flexi-
106 bility in terms of generation, storage, and demand response, in the same way as a
107 microgrid does. Also, green buildings are capable of operating in an environment
108 where they can physically trade energy with other green building. As one may real-
109 ize, a green building can be defined perfectly as a microgrid with similar function-
110 ality [41, 42]. Since the focus of this paper is on residential buildings, the H-MG term
111 is adopted. The concept of H-MG has already been used in literature on a DC-AC
112 microgrid at residential level [43–47].

113 Each H-MG can have generation resources (controllable distributed energy re-
114 sources (DER) and NDU), load (non-responsive load (NRL) and RLD), and ES de-
115 vices. Every generation unit, DR during load reduction, and storage in discharg-
116 ing mode are classified as an individual generator, while each load entity (i.e. ES
117 in charging mode, NRL, and RLD) is tagged as an independent consumer. In this
118 framework, each player is trying to satisfy its own objective(s), i.e., generators try
119 to maximize their profit while consumers look after minimizing their operation cost.

120 In a similar manner to microgrid interoperability, several H-MGs, connected to
121 the same network through a market operator or similar platform, can sell their ex-
122 cess energy to adjacent H-MGs or supply their power shortage through neighbours

123 instead of purchasing energy from retailers. For a microgrid to be able to do this,
124 it is necessary to have an energy management system (EMS) to make decisions in
125 day-ahead and real-time operation. In this paper, every H-MG is assumed to have
126 a home energy management system (HEMS) which is able to send/receive signals
127 to/from a market operator, as explained later in detail. HEMS could functionally be
128 able to predict local load demand, renewable generation, and demand flexibility,
129 and to generate scenarios for the stochastic parameters. The HEMS is physically
130 connected to generation, storage, and DR resources in the H-MG to operate them
131 accordingly, and to the market operator to participate in energy trading. Therefore,
132 HEMS is an integral part of the H-MG concept and the proposed market mechanism
133 in this paper. Another feature of H-MGs in this study is that a single H-MG can have
134 both generator and consumer as players in the market. This feature is preferred
135 in this study to generalize market operation and formulation for every ownership
136 situation, such as when tenants of the H-MG are not the owner of the building,
137 generation and storage devices. In this framework, contradictory and competing
138 objectives of the players can be conveniently sought.

139 3. The proposed retail market structure

140 A schematic diagram of the proposed market structure is shown in Figure 2.
141 The market operator (MO) is the entity who manages the retail market and its
142 participants. The MO could be either a separate entity overseen by the distribution
143 network operator (DNO) or the distribution management system (DMS) or a part
144 of existing distribution system operator (DSO)/DMS which alternatively becomes a
145 flexible DSO. In any case, the functionalities of the proposed market structure will
146 remain the same. The optimum price is calculated by the MO using information
147 received from buyers and sellers.

148 As shown in Figure 2, multiple retailers can engage in the market by submitting
149 separate sets of supply and demand bids in order to trade energy. H-MGs also
150 can participate in the retail market to trade energy, and possibly ancillary service
151 products. It should be noted that while HEMS only considers the benefit of a sin-

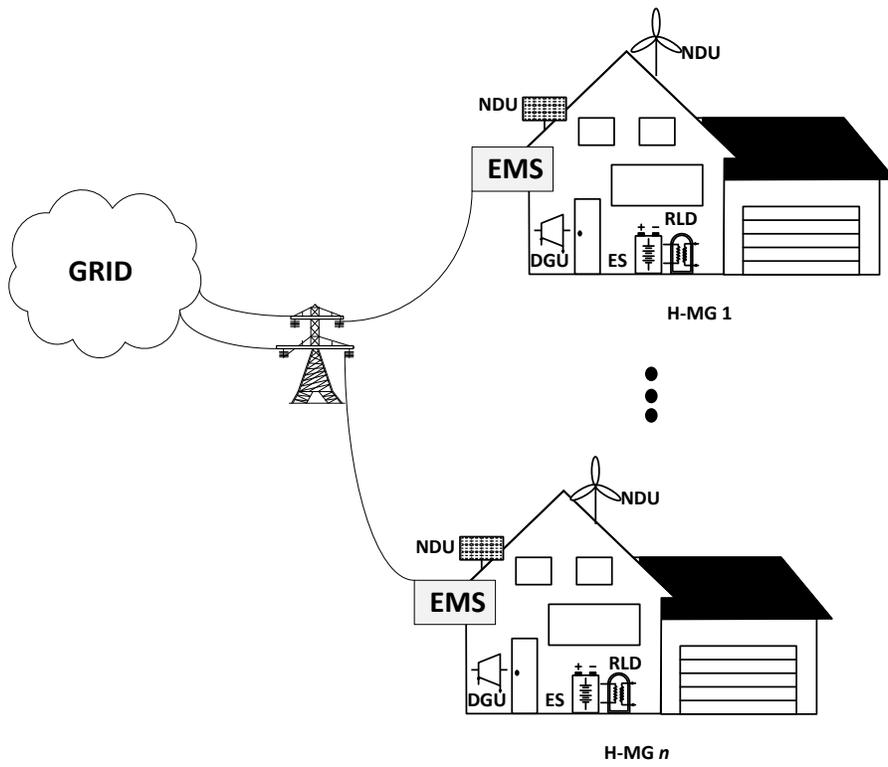


Figure 1: Typical green building, re-defined as H-MG for the purpose of this study

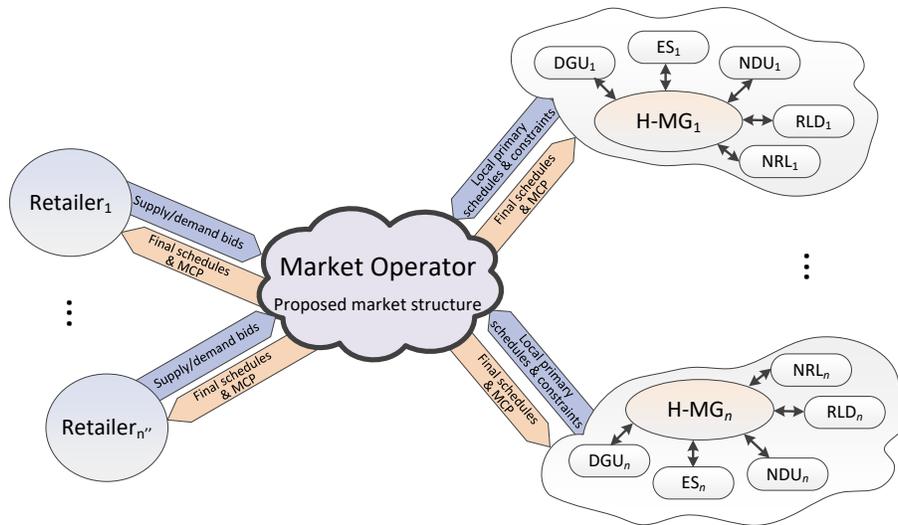


Figure 2: Interaction of DNO, MO and multiple H-MG within the proposed market structure

152 gle H-MG, the proposed market structure seeks a global solution where all players
 153 benefit from participation in the market. To do so, non-cooperative game theory
 154 is adopted in this study, which is solved repeatedly by using game theory specific
 155 method, i.e., NIRA. In this kind of game, players with opposing goals are seeking
 156 to achieve their own interests. The proposed market structure will be explained in
 157 the next section in detail. Each player may have to some extent (or completely) a
 158 contradictory pay-off function compared with others. All of them try to maximize
 159 their welfare by regulating their strategies. The decision of each player has effect
 160 on the overall MCP.

161 The proposed market enables interactions among H-MGs and with retailers to
 162 exchange power and utilize generation resources optimally.

163 For the proposed structure to work, two types of information must be commu-
 164 nicated from the H-MGs to the MO: 1- Specifications of each H-MG including the
 165 rated capacity of the existing devices, operational constraints, and cost functions
 166 which do not change on a daily basis. Therefore, they will be broadcast to the MO
 167 once they join the market, and be updated quarterly or annually or by a notice

168 from H-MG owner. 2- Dynamic information such as the day-ahead forecast of renew-
169 able generation and load demand, and the availability of generators and consumers
170 which have to be communicated on a daily basis. As one can appreciate, the pro-
171 posed structure looks similar to the wholesale electricity market at the transmission
172 level in terms of data exchange. Therefore, the required communication is relatively
173 minimal in real-time. Retailers are also required to submit supply and demand bids
174 for the entire day to the MO. In return, every H-MG and retailer receives optimal
175 schedules from the MO for the day-ahead operation. It is worth mentioning that the
176 proposed market structure could also be deployed in real-time operation with the
177 same principles without any changes. Moreover, if HEMS has enough computational
178 power and memory, it can locally run the proposed operation in steps 1 and 2, as
179 shown in Figure 3. Otherwise, they can act as a communication channel between
180 H-MG and MO, and to operate internal devices upon receiving schedules from MO.
181 Interoperability of the H-MGs is yet another feature of the proposed market. When
182 a H-MG comes across excess generation, after satisfying its local demand, it tends
183 to sell excess power to other H-MGs or retailers in the market based on the MCP.
184 Alternatively, a H-MG with power shortage can purchase **the** cheapest available
185 energy from other H-MGs or retailers. To encourage H-MGs to participate in the
186 market with more local generation, their excess power, which has not been sold to
187 other H-MGs, will be purchased by retailers at the MCP [48]. This will, in turn,
188 decrease electricity prices for **consumers**, which will be shown in the simulation
189 studies. It also reduces power losses by boosting local generation and consumption.
190 To further enhance the robustness of the proposed market structure against load and
191 generation uncertainties, a stochastic framework for market operation is created,
192 the details of which will be explained later in this section. Without loss of generality,
193 day-ahead market operation is considered for the rest of the paper.

194 The proposed market runs through the following steps, as shown in Figure 3:

195 **Step 1:** The first step is to estimate the generation capacity of photovoltaic (PV)
196 and wind turbine (WT) as NDUs and also NRL for the day-ahead using HEMS.
197 In order to consider the inherent variability of renewable generation and load de-

198 mand, a stochastic framework is employed based on scenario generation and the
199 appropriate distribution function of the random parameter. Load and solar irradi-
200 ation uncertainty are modelled using a normal distribution with known mean
201 and standard deviation. In addition, wind speed variability is estimated using a
202 Weibull distribution for 24-hours ahead [49]. Numerous scenarios are generated for
203 each uncertainty parameters. However, running this optimization for all scenarios
204 is time consuming and computationally expensive. As a result, Taguchi's orthogonal
205 array testing (TOAT) method is used to reduce the number of scenarios [49],[50].
206 The TOAT method selects the minimum number of scenarios while preserving the
207 main statistical information of the entire dataset. More details on the stochastic
208 framework of this study can be found in [49].

209 **Step 2:** In this step, the unit commitment problem is solved for each scenario
210 achieved by TOAT method in Step 1 for every H-MG. A complicated modified con-
211 ventional energy management system (MCEMS) is developed by the authors to
212 manage DERs, DR resources, and ES+/ES- for the entire day. Basically, a power
213 management problem is solved for every time step of the day ahead. The outcome
214 is the primary schedule of each generator and consumer in each scenario including
215 the charge/discharge operation schedule of the ES devices, load increase/reduction
216 of DR, and the amount of power shortage or excess for each time step for the next
217 day. Step 2 is designed to satisfy the local load demand using onsite generation to
218 the maximum possible extent; this will result in a higher system efficiency and a
219 larger penetration of DERs at the distribution level. The MCEMS algorithm is fairly
220 complicated; interested readers are encouraged to consult [46] for further details.
221 Step 1 and 2 can be carried out either at the H-MG level using local HEMS or by the
222 MO centrally. The former structure reduces communication intensity and respects
223 H-MG privacy to some level. The latter, however, decreases the upfront cost of re-
224 quired devices to participate in the market for each H-MG, which encourages more
225 participation. In either case the proposed market mechanism will remain intact.

226 **Step 3:** From Step 2, the shortage and excess power of each H-MG is known for ev-
227 ery scenario without considering the retailers and interoperability among H-MGs. In

228 Step 3, however, a scheduling problem is solved (in the PBUC unit) in the presence
229 of participating retailers and power shortage/surplus of each H-MG. As it is shown
230 in Figure 3, each retailer participates in the market by submitting two separate sets
231 of bids: bid-in demand for purchasing excess power from H-MGs, and bid-in supply
232 for selling power to support H-MGs with power shortage. Bids are submitted in the
233 form of blocks of price and energy quantity. Step 3 also determines the upper limit
234 for sold/purchased power to/from each retailer while maximizing exploitation of
235 the H-MG generation. Further details are given in Section 4.

236 **Step 4:** Primary schedules from Steps 1, 2, and 3 are calculated based on local
237 MCEMS operation. They do not therefore consider interoperation among the H-
238 MGs, nor the global benefit of the players. Using the consumers' and generators'
239 schedules (i.e., $Inp_{2 \rightarrow 3,4}$) as well as the retailers upper limits for purchasing and
240 selling energy in each scenario as the start point (i.e., $Inp_{3 \rightarrow 4}$), the NIRA algorithm
241 is used to determine the global optimal schedules of the players. This is achieved
242 as a Nash equilibrium considering both local and global constraints. In this step,
243 stochastic optimization is formulated by solving the NIRA algorithm. To start the
244 game, the expected values of the schedules from previous steps are calculated and
245 utilized. The formulation for Step 4 is given in section 5.

246 **Step 5:** The MCP is calculated in Step 5 based on the Nash equilibrium and the bids
247 submitted by the players using a double-sided auction. From there, the financial
248 benefit for every player in the market is obtained based on the MCP and optimal
249 schedules obtained in Step 4. This step is explained in Section 6 in more detail.

250 4. PBUC unit

251 As explained earlier, the retailers participate in the proposed market structure
252 with two sets of bids: supply and demand. In Steps 1 and 2, the shortage/excess
253 energy of each H-MG is calculated without considering the retailers' participation in
254 order to promote local energy generation and utilization. In PBUC unit, the upper
255 trading limit for retailers in both supplier and consumer modes is determined based

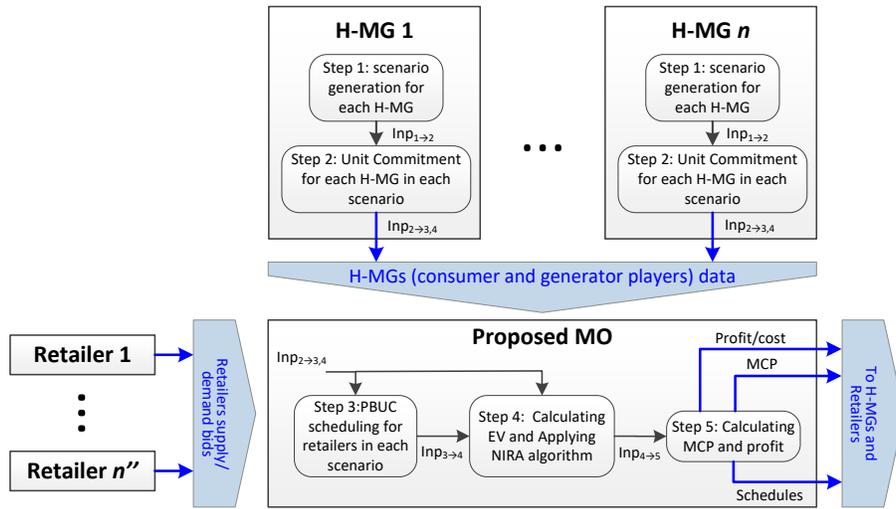


Figure 3: Step-by-step process of implementing the proposed market structure

256 on excess/shortage energy of each H-MG; this is essential for our calculations in
 257 Step 4. First, total energy shortage of all H-MGs is calculated. Then, the PBUC unit
 258 sorts the H-MGs with excess energy and retailers' supply bids according to their
 259 offer prices in ascending order. In this way, either H-MGs (with excess generation)
 260 or retailers with lower prices will be awarded first. Energy awarded to each retailer
 261 in this Step will be used as the upper limit in Step 4.

262 Since it is desired to purchase any extra energy from H-MGs in order to promote
 263 local generation, the PBUC algorithm checks through all the H-MGs with unsold
 264 excess energy for the entire day. The total amount of excess energy will then be
 265 calculated and the retailers with the highest demand bids will be sorted in ascend-
 266 ing order. Consequently, the retailers with highest demand price will be awarded
 267 to purchase power from the H-MGs with unsold excess energy. This will set a max-
 268 imum upper bound for the retailers' energy demand. The two sets of upper limits
 269 for retailers (in supply and demand modes) will be communicated to Step 4 (i.e.,
 270 $Inp_{3 \rightarrow 4}$) where a NIRA algorithm is implemented to solve an optimization problem.

271 5. Problem formulation of Step 4

272 In this step, the NIRA algorithm is adopted to co-optimize the pay-off function
273 of each player using a central decision-making process. This is done by calculating
274 the players' Nash equilibrium using a special type of game theory known as NIRA
275 [49],[51]. The final outcome of this step is the optimal dispatch of each player in
276 the market by calculating the Nash equilibrium through an iterative loop. In the rest
277 of this section the NIRA algorithm formulation is presented. Variables in the NIRA
278 algorithm, i.e., x_i , are the generation/consumption dispatch of each player. The
279 initial guess, i.e., x^0 , for all players is selected based on the information obtained
280 from Steps 2 and 3. In this regard, it is assumed that the nature of the electricity
281 market is proportional to the game theory with n participants in a non-cooperative
282 game. H-MG information (such as cost functions, characteristics of generation and
283 consumption devices, and physical constraints), primary dispatches calculated in
284 Step 2, upper limits obtained in Step 3, and retailers' supply and demand bids are
285 among the input parameters to this unit.

286 This unit has two important tasks to accomplish which are formulated as two
287 sub-problems: 1- maximizing Eq. (1) [49], and 2- applying the relaxation algorithm
288 and updating Eq. (2) [49].

$$\Psi(x, y) = \sum_{i=1}^n [\Theta_i(y_i|x) - \Theta_i(x)] \quad (1)$$

$$Z(x) = \arg \max_{y \in X} \psi(x, y) \quad x, Z(x) \in X \quad (2)$$

289 Both tasks are followed interactively by the NIRA unit until the difference of $Z(x)$
290 between two consecutive iterations becomes smaller than a predefined threshold.
291 The first sub-problem solution is not optimal but satisfies a Nash equilibrium. Sub-
292 problem 2, on the other hand, uses the relaxation technique through a number of
293 iterations to push the results to an optimal point. After the initial value definition,
294 x^0 , it is possible to create $\Phi_i(x)$, i.e., the first sub-problem. Then, solutions of
295 the first sub-problem gradually converge to a new stable state in the second sub-
296 problem which are considered as the desired results. If values of $\Psi(x, y)$ becomes

297 zero, no player can unilaterally improve its pay-off $\Phi_i(x)$. Therefore, a balanced
 298 (approximate) response is achieved for the electricity market clearing by following
 299 the global (Eq. 13) and local constraints (Eq. 14-22).

300 In the following sub-sections, a mathematical formulation is presented using
 301 the key components in the proposed retail electricity market, namely retailers and
 302 H-MGs' players consisting of generators and consumers.

303 5.1. Generator

304 Generation resources include DGU, NDU and ES in discharging mode. The profit
 305 of generator i at time t , \mathbb{J}_t^i , can be expressed and maximized as follows:

$$\max \mathbb{J}_t^i = \mathbb{R}_t^i - \mathbb{C}_t^i, \quad t \in \{1, 2, \dots, 24\}, \quad i \in \{1, 2, \dots, n\} \quad (3)$$

306 where the revenue of generator i is defined as:

$$\mathbb{R}_t^i = \pi_t^{\text{H-MG},j} \times [P_t^{\text{DGU},j} + P_t^{\text{NDU},j} + P_t^{\text{ES},j} - P_t^{\text{NRL},j}] \quad (4)$$

$$\pi_t^{\text{H-MG},j} = -\theta \times (P_t^{\text{NRL},j} + P_t^{\text{RLD},j}) + \beta, \quad \theta > 0 \quad (5)$$

$$P_t^{\text{NRL},j} = \sum_{s=1}^{N_s} \rho_{t,s}^{\text{NRL},j} \times P_{t,s}^{\text{NRL},j}, \quad j \in \{1, 2, \dots, n\} \quad (6)$$

311 In Eq. (4), the load offer price (i.e., inverse load demand curve), $\pi_t^{\text{H-MG},j}$, is
 312 calculated using Eq. (5) which, for the sake of simplicity is assumed to be the same
 313 at any given time t ; $P_t^{\text{NRL},j}$ is the expected value at hour t in kW which is calculated
 314 by multiplying the probability of each uncertainty scenario, i.e., $\rho_{t,s}^{\text{NRL},j}$, by the kW
 315 value of that scenario, i.e., $P_{t,s}^{\text{NRL},j}$, according to the Eq. (6).

316 Eq. (7) is total cost of generator i which consists of DGU and ES costs. The DGU
 317 generation cost in H-MG j has been formulated as a quadratic function in Eq. (8),
 318 where a_j , b_j and c_j are the coefficients of the cost function for DGU i of H-MG j .
 319 Cost of ES energy is expressed by Eq. (9). For simplicity, the offer price for all the
 320 players in a H-MG is assumed to be the same at each time interval. Therefore, the
 321 following relation can be presented.

$$\mathbb{C}_t^i = \mathbb{C}_t^{\text{DGU},j} + \mathbb{C}_t^{\text{ES},j} \quad (7)$$

$$\mathbb{C}_t^{\text{DGU},j} = a^j \cdot (P_t^{\text{DGU},j})^2 + b^j \cdot P_t^{\text{DGU},j} + c^j, \quad a^j > 0 \quad (8)$$

$$\mathbb{C}_t^{\text{ES},j} = \pi^{\text{ES}} \times P_t^{\text{ES},j} \quad (9)$$

325 5.2. **Consumer**

326 This group of players consists of RLD loads in each H-MG. The objective is to
 327 minimize their operation cost (exploitation cost) by managing their own dispatch-
 328 able loads while maintaining a certain comfort level, as follows:

$$\mathbf{min} \mathbb{J}_t^{i'} = \pi_t^{\text{H-MG},j} \times P_t^{\text{RLD},j}, i' \in \{1, 2, \dots, n\} \quad (10)$$

330 where offered price by H-MG j is obtained from Eq. (5).

331 5.3. **Retailer**

332 This type of player represents retailers in purchasing the excess power from the
 333 H-MGs as well as selling power to the H-MGs with power shortage. $\mathbb{J}_t^{i''}$ is defined
 334 as the retailers' profit from exchanging energy in the market at time t which has to
 335 be maximized:

$$\mathbf{max} \mathbb{J}_t^{i''} = \mathbb{R}_t^{i''} - \mathbb{C}_t^{i''}, i'' \in \{1, 2, \dots, n''\} \quad (11)$$

337 where revenue and cost functions are:

$$\mathbb{R}_t^{i''} = \pi_t^{i''-} \times P_t^{i''-}, \mathbb{C}_t^{i''} = \pi_t^{i''+} \times P_t^{i''+} \quad (12)$$

338 In Eq. (12), $\pi_t^{i''-}$ and $\pi_t^{i''+}$ are offered prices by retailer i'' .

339 5.4. *General Constraints*

340 A set of constraints are defined to respect **the** physical limits of the devices and
 341 distribution system, as follows:

$$\begin{aligned} & \sum_{j=1}^n (P_t^{\text{DGU},j} + P_t^{\text{NDU},j} + P_t^{\text{ES},j}) + \sum_{i''=1}^n P_t^{i''-} \\ & = \sum_{j=1}^n (P_t^{\text{NRL},j} + P_t^{\text{ES},j} + P_t^{\text{RLD},j}) + \sum_{i''=1}^n P_t^{i''+} \end{aligned} \quad (13)$$

$$\underline{P}^{\text{DGU},j} \leq P_t^{\text{DGU},j} \leq \overline{P}^{\text{DGU},j} \quad (14)$$

$$0 \leq P_t^{\text{NDU},j} \leq \text{EV}_t^{\text{NDU},j}, \text{EV}_t^{\text{NDU},j} = \sum_{s=1}^{N_s} \rho_{t,s}^{\text{NDU},j} \times P_{t,s}^{\text{NDU},j} \quad (15)$$

$$0 \leq P_t^{\text{ES},j} (P_t^{\text{ES},j}) \leq \overline{P}^{\text{ES},j} (\overline{P}^{\text{ES},j}), \forall t \quad (16)$$

$$\underline{\text{SOC}}^{\text{ES},j} \leq \text{SOC}_t^{\text{ES},j} \leq \overline{\text{SOC}}^{\text{ES},j} \quad (17)$$

$$\text{SOC}_{t+1}^{\text{ES},j} - \text{SOC}_t^{\text{ES},j} = \frac{(P_t^{\text{ES},j} - P_t^{\text{ES},j}) \times \Delta t}{\zeta^{\text{ES}} \text{ES}_{\text{Tot}}^{\text{ES},j}} \quad (18)$$

$$0 \leq P_t^{\text{RLD},j} \leq \zeta \times P_t^{\text{NRL},j} \quad (19)$$

$$0 \leq P_t^{i''-} - (P_t^{i''+}) \leq \text{EV}_t^{i''-} - (\text{EV}_t^{i''+}) \quad (20)$$

The supply and demand balance is guaranteed using Eq. (13) at all times; Eqs. (14) and (15) represent operational constraints of DGU and NDU units, respectively. Renewable generation limitation is enforced by Eq. (15) by using the expected value as the upper level. The maximum charge/discharge power of the battery is also modelled by Eq. (16). Eqs. (17) and (18) represent the SOC limits of the battery considering its round-trip efficiency, ζ^{ES} . Eq. (19) defines the amount of available responsive load based on the total NRLs. $\text{EV}_t^{i''+}$ and $\text{EV}_t^{i''-}$ (kW) are expected power purchased (sold) by retailer i'' at time t from (to) H-MGs which are calculated by:

$$\text{EV}_t^{i''-} = \sum_{s=1}^{N_s} \rho_{t,s}^{i''-} \times P_{t,s}^{i''-} \quad (21)$$

$$\text{EV}_t^{i''+} = \sum_{s=1}^{N_s} \rho_{t,s}^{i''+} \times P_{t,s}^{i''+} \quad (22)$$

where $\rho_{t,s}^{i''-}$ and $\rho_{t,s}^{i''+}$ are the probability of each scenario s at time t during selling and purchasing power.

6. MCP Unit

In this unit, MCP is calculated based on the schedules obtained from the Nash equilibrium calculation (i.e. optimum capacity of each player in the market) and supply and demand bids submitted by the participants using a forward market with a double-sided auction [52]. The forward market aggregates the supply and demand in the merit order in terms of price-quantity pairs. The quantities are optimal schedules obtained from Step 4, and the prices are supply and demand bids submitted by the players. As expected, the aggregated supply and demand quantity-price values are monotonically increasing and decreasing step-wise curves, respectively.

371 MCP will be the intersection of the aggregated supply and demand curves. Finally,
372 the pay-off function will be computed for each player based on the MCP.

373 7. Simulation results and discussions

374 A comprehensive simulation study is carried out to evaluate the benefit of the
375 proposed market for all stakeholders. Three case studies are defined as follows:

- 376 • CASE I: Three H-MGs connected to a single retailer are simulated where
377 no market mechanism exists, and every H-MG, equipped with MCEMS, is
378 attempting to only minimize its operation cost. It is used as the base-case
379 scheme for comparison purposes.
- 380 • CASE II: Three H-MGs are singly connected to a single retailer under the
381 proposed market structure.
- 382 • CASE III: Three H-MGs connected to two retailers under the proposed market
383 structure.

384 It is assumed that every H-MG has two players including a consumer and a gen-
385 erator, where both players have similar ownership. In other words, the tenants of
386 each H-MG are also the owners of the devices in the H-MG. A comparison between
387 CASE II and CASE III shows the effectiveness of the proposed market mechanism in
388 handling multiple players and helps to quantify the benefit of having higher competi-
389 tion in the market. Additionally, the goal of having three H-MGs and two retailers
390 in CASE III is to provide diversity of players while keeping the size of the simulation
391 studies tractable for analysis and discussions. Please note that there is no limitation
392 on the number of players, including generator, consumer, and retailer.

393 Each H-MG consists of a set of generation resources including WT and PV as
394 NDUs, microturbine (MT) as DGU, ES, and consumers with NRL and RLD loads.
395 In Figure 4(a)-(c), PV, WT, and NRL prediction, respectively, are given for the three
396 H-MGs for the day ahead. It can be seen from Figure 4(c) that all three H-MGs are
397 less flexible (i.e., have higher NRL) during second peak hours in the evening. PV,
398 WT, and NRL prediction profiles for each H-MG and the specifications of the DERs
399 have been obtained from [46], and are given in the Appendix (Section 9). Retailers'

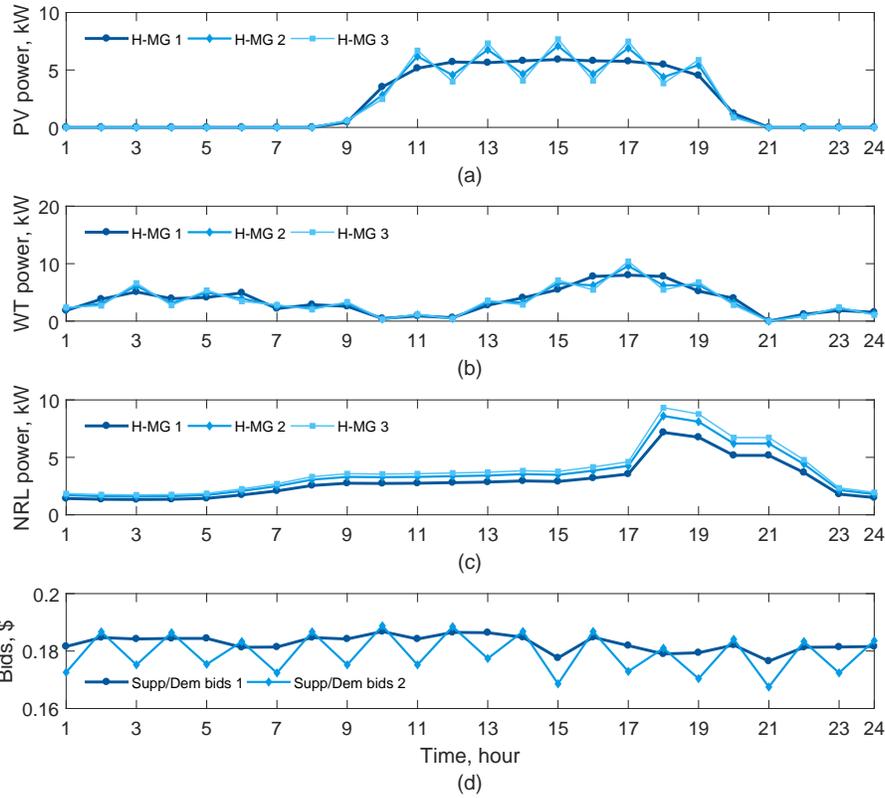


Figure 4: Predicted WT, PV, NRL, and supply/demand bids of retailers profiles for the entire day-ahead for each H-MG

400 supply/demand bids are also shown in Figure 4(d). In CASE II, only retailer 1 exists
 401 while both retailers participate in the market operation in CASE III. Without loss of
 402 generality, it is assumed that supply and demand bids are the same for each retailer.
 403 A simulation study is then carried out for all three CASES according to the defini-
 404 tion with the given data and parameters. In the rest of this section, the simulation
 405 results are presented and explained.

406 Figure 5(a) shows the total generated energy (i.e., TGE) produced locally by
 407 the three H-MGs in a day of operation for three cases. It can be seen that TGE is
 408 increased for all three H-MGs from CASE I to CASE II, and from CASE II to CASE
 409 III. Increasing TGE from CASE II to CASE III proves that having more players in the

Table 1: Comparison among the different cases in terms of TGE improvement

	CASE I	CASE II	CASE III
CASE I	—	-166.3%	-238.3%
CASE II	62.4%	—	-27.0%
CASE III	70.4%	21.3%	—

410 market improves competition, resulting in larger local production. It also proves
 411 the effectiveness of the proposed market approach to facilitate a higher amount of
 412 local generation. TGE for H-MG2 in CASE III is slightly less improved compared to
 413 CASE II which is because of the competition in the market. The Nash equilibrium,
 414 obtained in CASE II and CASE III, fulfills the objectives of all players while respecting
 415 their constraints. Therefore, no player can increase its pay-off by unilateral changes
 416 of its strategy space. It means that no player has preference relative to any other
 417 players at the Nash equilibrium point. In Figure 5(b), TGE of each H-MG in CASE II
 418 and CASE III is compared with the base-case, i.e., CASE I, to quantify improvement
 419 caused by the proposed market structure. On average, TGE is increased 266% and
 420 338% in CASE II and CASE III, respectively, compared to CASE I.

421 To further compare TGE in different cases, Table1 is created using the following
 422 equation:

$$\eta_{i,j} = \frac{TGE_{CASE_i} - TGE_{CASE_j}}{TGE_{CASE_i}} \quad i, j \in \{ 'CASE I', 'CASE II', 'CASE III' \} \quad (23)$$

423 where positive values show an increase in TGE, and negative values implies a de-
 424 crease in TGE. It can be seen from Table 1 that the average TGE is improved from
 425 CASE I to CASE III. Adding only one more retailer in CASE III led to about 21%
 426 improvement in TGE, which is significant. This is about a 27% improvement when
 427 it is normalized based on CASE II.

428 Total consumed energy (TCE) in the three cases and each H-MG is shown in
 429 Figure 6(a). It can be seen from the figure that TCE for all H-MGs is increased from
 430 CASE I to CASE II, and from CASE II to CASE III. This proves that the larger the
 431 number of players, the higher the amount of served load in the context of RLD. The

Table 2: Comparison among the different cases based on TCE improvement

	CASE I	CASE II	CASE III
CASE I	—	-87.5%	-132.7%
CASE II	46.7%	—	-24.1%
CASE III	57.0%	19.4%	—

reason is that higher competition reduces the overall cost of operation for all players which encourages more consumption through RLD. While the trend is almost the same for H-MG 1 and 3, H-MG 2 shows less improvement in served RLD in CASE III compared to CASE II. The reason is linked to the lower TGE improvement for H-MG 2 in CASE III, as shown in Figure 5(a), where competition is boosted in the market by having two retailers. In Figure 6(b) TCE for CASE II and CASE III compared to CASE I for the three H-MGs. On average, it is increased by 189% and 235% in CASE II and CASE III, respectively. H-MG 1 has the highest improvement among existing H-MGs.

Overall improvement of TCE from CASE I to CASE II and CASE III is reported in Table 2. Similar to TGE, the improvement is more obvious from CASE I to CASE II and CASE III compared to the improvement from CASE II to CASE III. Nevertheless, CASE III shows about 19% more TCE compared to CASE II, which is quite significant. If CASE II is compared with CASE III, the improvement is about 24%.

Total served RLD throughout the day of simulation is given in Table 3 for each H-MG in the different cases. It is clear that lower MCP and higher availability of local generation significantly increased the total served RLD from CASE I to CASE II and CASE III. This means that consumers will pay less per kWh while consuming more electricity, which is facilitated by the proposed market structure.

Average battery SOC of each H-MG in the three cases is plotted in Figure. 7(a). It can be seen that the battery SOC is maintained at 79% level on average, which has significant positive impact on battery lifetime and reliability of the system operation. The daily SOC profile for each H-MG is also shown in Figure 7(b)-(d) for all H-MGs. Also, it can be seen that the SOC in all cases for all H-MGs reaches to 80%

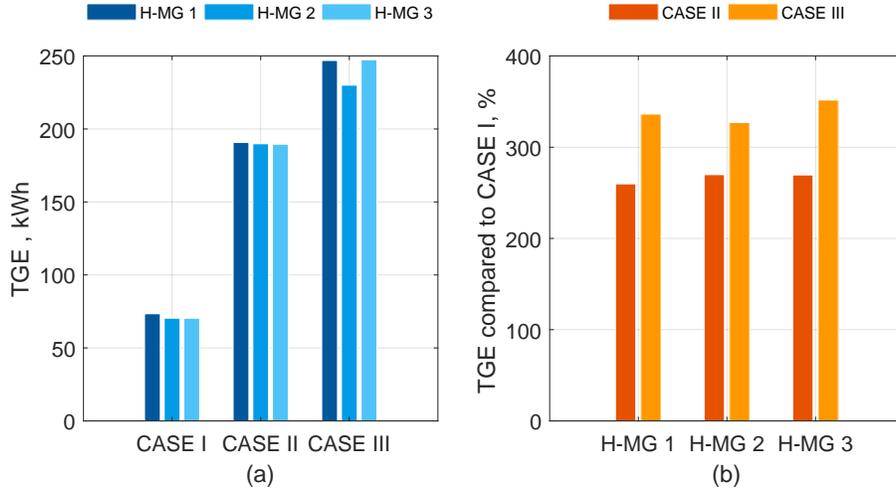


Figure 5: (a) TGE of three H-MGs during the 24-hour simulation in all cases, (b) CASE II and CASE III in comparison with CASE I

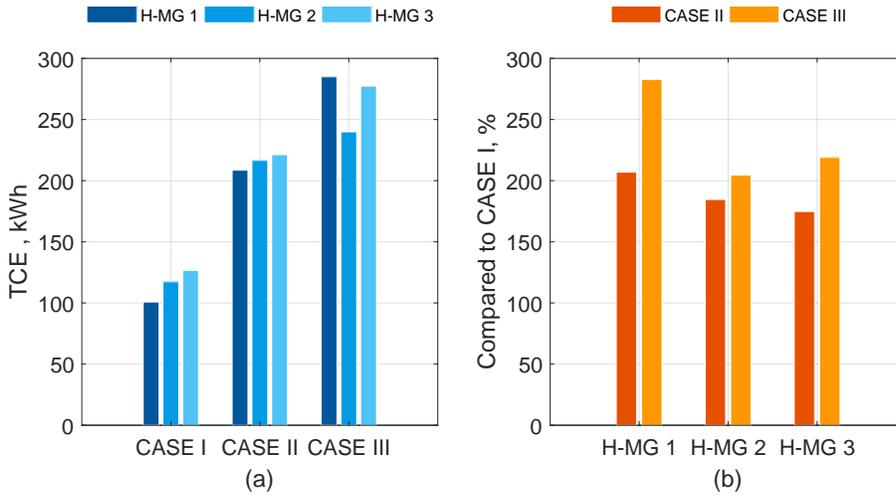


Figure 6: (a) TCE in three H-MGs during the 24-hour simulation in all cases, (b) CASE II and CASE III compared to CASE I

Table 3: Total RLD (kWh) for the H-MGs during the 24-hour simulation in all cases

	H-MG 1	H-MG 2	H-MG 3
CASE I	15.5	12.2	10.4
CASE II	126.2	108.5	98.9
CASE III	203.0	132.8	159.2

456 in the early hours where battery initial SOC was set to 50%. In other words, the
 457 battery in all cases is charged at mid-night when the price of electricity is cheap and
 458 WT is generating power. Having batteries at full-charge increases the system's over-
 459 all reliability and resilience with respect to sudden power shortage and unwanted
 460 incidents.

461 The consumer's pay-off is a function of operation cost and the purchased elec-
 462 tricity from other players; the result of which is shown in Figure 8(a) based on simu-
 463 lation studies. Daily pay-off values (aggregated for the whole day) after market set-
 464 tlement is given in the figure. The results consistently show an increased operational
 465 cost of the consumers because of higher served RLD, as shown in Figure 6(a), in
 466 CASE II and CASE III by the proposed market structure. It agrees with all of the
 467 analyses so far as well as the willingness of consumers to increase consumption
 468 when MCP are satisfactorily low.

469 In Figure 8(b), the daily aggregated pay-off (i.e., profit) for generators are
 470 shown for three cases and H-MGs. It can be seen that the profit of generators in-
 471 creased from CASE I to CASE III for all H-MGs. The negative values of the generators
 472 in CASE I means that they cannot meet their NRL at all times. Therefore, they have
 473 to purchase energy from retailers to meet the energy shortage. Please note that the
 474 cost of serving NRL is formulated in generator' utility function in Eq. 3. It in turn
 475 increases the profit of the single retailer in CASE I, as shown in Figure 8(c).

476 The overall benefit of multiple retailers is depicted in Figure 8(c). Not surpris-
 477 ingly, the overall profit for the retailers is the highest in CASE I because energy
 478 shortage of the H-MGs in that case is only compensated by the retailer. When the
 479 proposed market is utilized, overall retailer pay-off is reduced by 14.4% and 11.4%

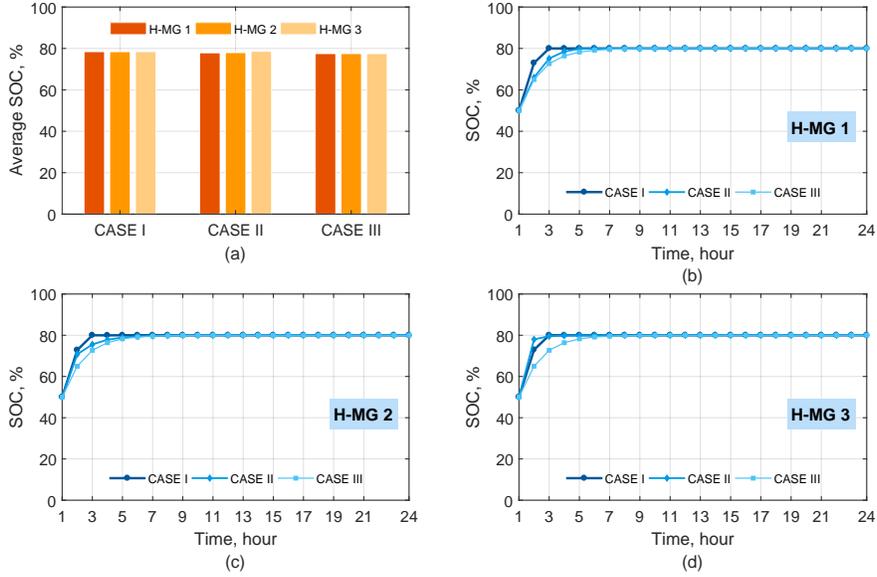


Figure 7: Battery operation for all cases and H-MGs: (a) daily average SOC, (b)-(d) SOC of the battery in 24-hour simulation for all three cases.

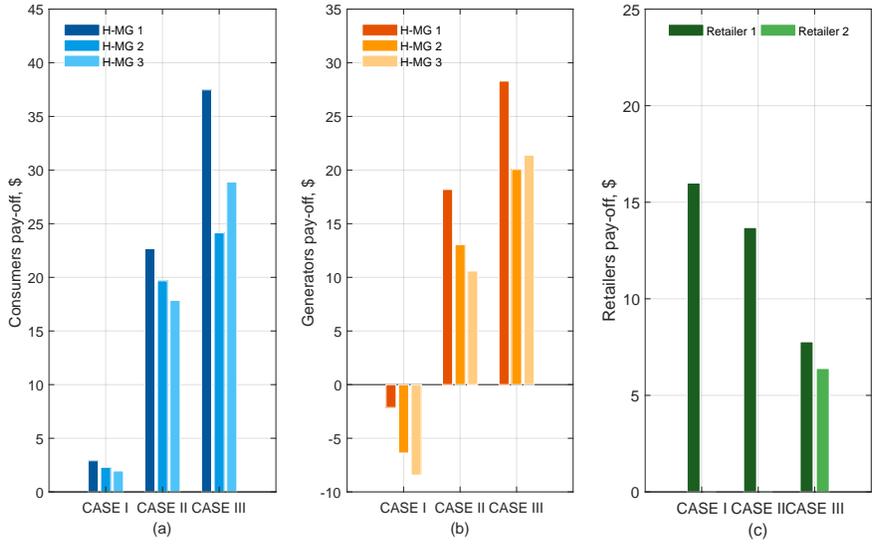


Figure 8: Accumulated pay-off of (a) consumers, (b) generators, and (c) retailers for each case and H-MG in 24-hour simulation study.

480 in CASE II and CASE III, respectively, compared to the base-case, i.e., CASE I. The
481 **retailers however** received 3.5% more profit in CASE III in comparison with CASE
482 II. This is the benefit of having more players in the proposed market structure where
483 CASE III with eight players represents the greater competition and provides more
484 benefits for every participants.

485 The MCPs are shown in Figure 9 for every hour in all CASES. It can be seen
486 that **the** highest MCP occurred in CASE I where there is not **a** market mechanism.
487 Average MCP in CASE I, CASE II, and CASE III is 0.188, 0.1805, and 0.183, respec-
488 tively, for the whole day which shows **a** 3.82% and 2.5% reduction in CASE II and
489 CASE III compared to CASE I. It can be seen from Fig. 9 that **the** MCP is notice-
490 ably lower for the second peak hours from 18:00 to 21:30 in all cases because of
491 the price-consumption model adopted in Eq.(5). During evening peak hours, total
492 RLD and NRL are relatively large. Therefore, their demand offers in the market are
493 reasonably low which resulted in low MCPs during these hours. Low MCPs around
494 2:30 AM to 3:30 AM **occur** because of offer prices and Nash Equilibrium points for
495 the given profile in those hours.

496 Although absolute value of MCP is the lowest in CASE II, the TCE was the highest
497 in CASE III. It means that the MCP per kWh of satisfied RLD is lower in CASE III,
498 **which is depicted in Fig.10. An exception is in hour 20, where the MCP per unit**
499 **of served RLD is always lower than the MCP in CASE II and significantly lower**
500 **compared to CASE I. It consequently proves that increasing the number of play-**
501 **ers resulted in lower MCP per unit of served RLD. It is worth mentioning that the**
502 **amount of served RLD depends on decreasing the MCP. In fact, because of improv-**
503 **ing competition between sellers according to increasing the number of suppliers in**
504 **the market, the consumers prefer to increase their RLD based on proper MCP, as**
505 **shown in Table 3. Please note that in hours 1, 7, 8, 21 to 24 of CASE I, no RLD is**
506 **met. Therefore, they are represented by “inf” in Fig. 10.**

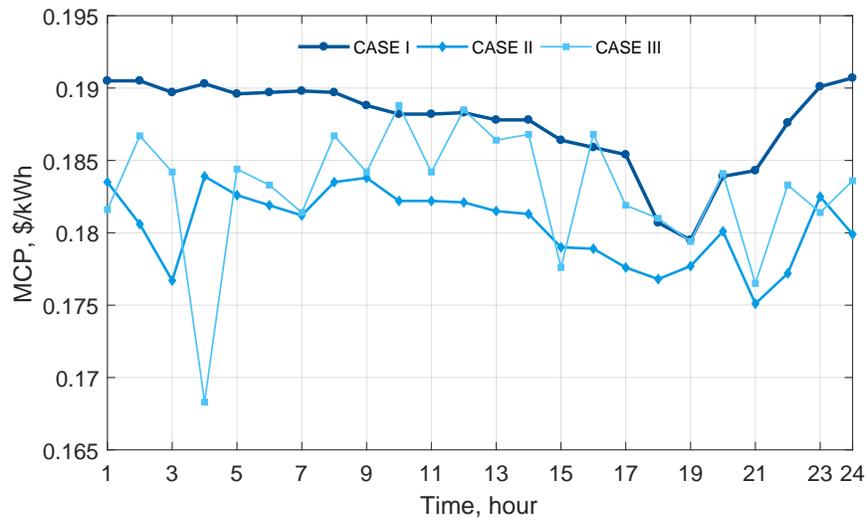


Figure 9: Hourly MCPs in 24-hour simulation in all cases.

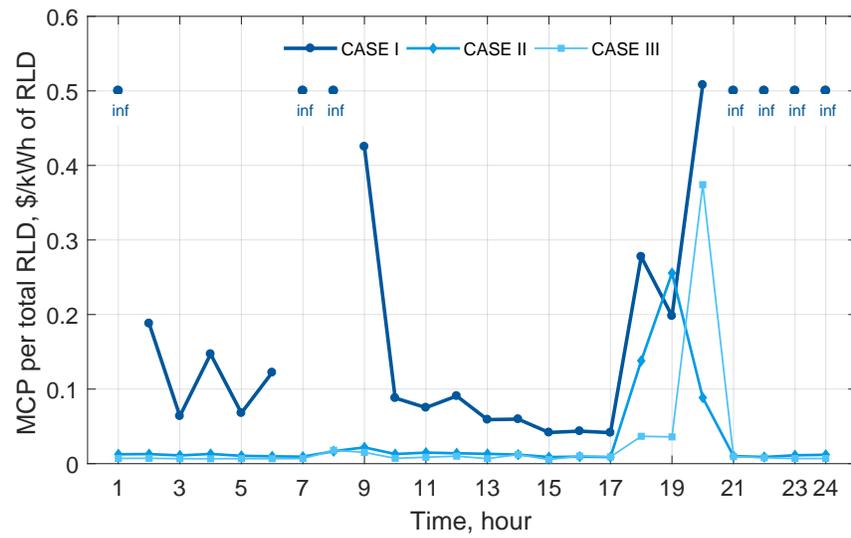


Figure 10: MCP per unit of total served RLD in all cases.

507 8. Conclusion

508 In this study, a centralized market structure suitable for distribution networks
509 has been proposed considering the concept of H-MG. Game theory is adopted and
510 the different players are formulated with competing objectives. It is shown that
511 the proposed market structure provides a global optimal scheduling for exchang-
512 ing power among H-MGs, while fulfilling the contradictory objectives of the various
513 players. In the proposed non-cooperative structure, players are encouraged to trade
514 in the local market to facilitate exploitation of the existing resources (either gener-
515 ation, storage, or demand response) for the benefit of the power system operation.
516 In addition, the proposed market structure is formulated to be scalable, compre-
517 hensive, and less computationally-intensive.

518 The numerical simulation results reveal that the proposed market empowers H-
519 MG interoperability so that maximum possible load will be served locally by onsite
520 generation resources. Also, it results in minimum operational cost and consequently
521 maximum profit for generators. Furthermore, increasing the number of players in
522 the market resulted in increased competition which eventually resulted in lower rel-
523 ative MCPs for consumers (considering significant increase in the amount of served
524 RLD) and a larger profit for generators.

525 In future work, the authors are planning to improve market operation by inte-
526 grating the possibility of coalition formation among different players. Additionally,
527 physical constraints of the network, such as voltage at different locations and power
528 flow through lines, will be formulated as an optimal power flow (OPF) problem.
529 Furthermore, various bidding strategies by the three players will be investigated to
530 quantify market efficiency and performance.

531 9. Appendix

532 The specifications of the simulation studies are given in Table 4. Also, Table 5
533 presents the specifications of the devices in each H-MGs and the coefficients of the
534 load demand prices.

Table 4: The input data of the proposed game structure

Input data	Value in CASE III (CASE II)
number of H-MGs	3 (1)
number of retailers	2 (1)
number of players	8 (3)
Type of game	static (static)
Players' dimensions vector	[4,1,4,1,4,1,2,2] ([4,1,2])
Upper bound level of players	∞ (∞)
Lower bound level of players	0 (0)
Termination tolerance	$1e^{-5}$ ($1e^{-5}$)
Maximum number of iterations allowed by the relaxation algorithm	150 (100)

Table 5: Rated profile of DERs

Parameter	Value	Symbol
ES system		
Maximum ES power during dis/charging modes (kW)	$\overline{P}^{ES+} / \underline{P}^{ES-}$	0.816/3.816
Initial SOC at T (%)	SOC_i	50
Maximum/minimum SOC (%)	$\overline{SOC} / \underline{SOC}$	80/20
Initial stored energy in ES (kWh)	E_I^{ES}	1
Total capacity of ES (kWh)	E_{Tot}^{ES}	2
Consumer bid by ES+ (\$/kWh)	π_t^{ES+}	0.145
PV system		
Maximum/minimum instantaneous power for PV (kW)	$\overline{P}^{PV} / \underline{P}^{PV}$	6/ 0
WT system		
Maximum/minimum instantaneous power for WT (kW)	$\overline{P}^{WT} / \underline{P}^{WT}$	8/ 0.45
MT system		
Maximum/minimum instantaneous power for MT (kW)	$\overline{P}^{MT} / \underline{P}^{MT}$	12/ 3.6
Coefficients of cost function of DGU	a(\$/kW ² h)	$[6e^{-6}, 7e^{-6}, 8e^{-6}]$
	b(\$/kWh)	$[0.01, 0.015, 0.013]$
	c(\$/h)	0
Load coefficients		
Load demand curve coefficients	θ (\$/kwh)	0.001
	β (\$/h)	0.18
Maximum coefficient of RLD related to NRL	ζ	5

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