Using Real Options for an Eco-friendly Design of Water Distribution Systems

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This paper presents a real options approach to handle uncertainty during the entire life cycle of water distribution systems design. Furthermore, carbon emissions associated with the installation and operation of water distribution networks are considered. These emissions are computed by taking an embodied energy approach to the different materials used in water networks. A simulated annealing heuristic is used to optimize a flexible eco-friendly design of water distribution systems for an extended life horizon. This time horizon is subdivided into different time intervals in which different possible decision paths can be followed. The proposed approach is applied to a case study and the results are presented according to a decision tree. Lastly, some comparisons and results are used to demonstrate the quality of the results of this approach.

Keywords: carbon emissions, optimization, real options, simulated annealing, uncertainty, water distribution networks,
1 Introduction

Water supply and distribution systems represent a major investment for a society, whether it is in the construction of new systems or the maintenance and rehabilitation of ageing infrastructure. For example, the cost of replacing ageing water infrastructure in the USA could reach more than $1 trillion over the next few decades (AWWA 2012). These systems also have to cope with future uncertainties, including growing populations, shifting consumption patterns and a climate change. Therefore, constructing and maintaining water infrastructure with the aim of improving reliability and reducing costs, is a difficult task and this is compounded by a number of associated environmental issues that should be addressed.

Concern about global warming is increasing. Nations will need to act to dramatically reduce greenhouse gas emissions (GHG), specifically those countries that have signed and ratified the Kyoto Protocol of 2009. 192 countries follow this protocol and have to limit and reduce carbon emissions over the coming decades. In Portugal, the most polluting industry is the electricity generation sector, based on (ERSE 2012). Between 2005 and 2010, this sector was responsible for 55% of total carbon emissions.

In this paper we propose an approach that both handles environmental impacts, and tries to find appropriate flexible solutions for the design and operation of water distribution systems. McConnell (2007) defined system flexibility as “the ability for a system to actively transform, or facilitate a future transformation, to better anticipate or respond to changing internal or external conditions”. These problems are challenging and very difficult to solve. The real options (ROs) approach could be very useful in this field. Black & Scholes (1973) and Merton (1973) are the works that define and solve
the financial option valuing problem. Inspired by them, Myers (1977) introduced ROs. This approach permits flexible planning, thus allowing decision makers to adjust investment according to new future information. ROs has already been utilized for: designing maritime security systems (Buurman et al. 2009); finding the optimal capacity for hydropower projects (Bockman et al. 2008); dam project investments (Michailidis & Mattas 2007); constructing a parking garage (De Neufville et al. 2006), and designing satellite fleets (Hassan et al. 2005). However, there are very few papers where ROs concepts are applied to water infrastructure: Woodward et al. (2011) used ROs for flood risk management and Zhang & Babovic (2012) used it for decision support in the design and management of a flexible water resources framework through innovative technologies. We propose a real options approach to define the design of water distribution networks under different possible future conditions and taking carbon emissions in to account.

Several definitions are being used for direct and indirect carbon emissions. Alker et al. (2005) makes the distinction between direct emissions, i.e. those from sources that are owned or controlled by water companies, and indirect emissions, which are a consequence of the activities of the water company but that occur at sources owned or controlled by another company and generated away from the water infrastructure site. In water supply systems, the source of a direct emission would be the excavation works for traditional pipe installation, because this process is under the water company’s direct control. An indirect emission source would be the pipe manufacturing process, because this is controlled by another company.

In the last decade, objectives focused on environmental issues have started to feature in water distribution networks optimization works. The key work by Filion et al,
(2004) has been followed by a vast body of literature. Some works analysed and compared the carbon emissions with different pipe material instalation (e.g. Dandy et al. (2006) and Shilana (2011)) in a single objective framework.

Wu et al. (2008) was the first work to introduce the goal of minimizing greenhouse gas emissions into the multiobjective optimal design of water networks. The works of Wu et al. (2010), Wu et al. (2011) and Wu et al. (2013) report some developments and comparisons based on the multiobjective approach.

Herstein et al. (2009) take the idea of concentrating different environmental impacts in a single measure and present an index-based method to evaluate the environmental impacts of water distribution systems. This environmental index aims to aggregate multiple environmental measures calculated by an economic input-output life-cycle assessment model. However, some criticism of this methodology has emerged (Herstein and Filion, 2011a). Herstein et al. (2010) and Herstein and Filion (2011b) include different optimization models to minimize this index.

Water distribution networks are usually planned and constructed to be operated over a long planning horizon and so annual operating costs should be discounted. MacLeod and Filion (2011) and Roshani et al. (2012) study the effect of reducing carbon emission pricing and discount rates on the design and operation of water distribution networks. Finally, Oldford and Filion (2013) have reviewed the policy and research initiatives that have been used to incorporate environmental impacts in the design and optimization of water distribution systems. The aim is to develop a regulatory framework to limit these impacts during the design and operation of a water distribution system.
Our approach calculates carbon emissions using a different procedure. In the literature, carbon emissions associated with pipe installation only include those related to pipe manufacturing. In our work, emissions are calculated by considering the manufacturing of pipes and by computing the emissions of other materials required for pipe installation. The emissions from tank construction are also computed and carbon emissions from energy consumption are calculated for the whole of the planning horizon.

The remainder of this paper is organized as follows: section 2 sets out a methodology to compute the carbon emissions of a water network; next, the decision model is built, and then a case study is presented to examine the application of the methodology and to show some results. Finally, some comparisons are made and conclusions drawn.

2 Carbon emissions of water distribution systems

To incorporate carbon emission costs in the design and operation of the water networks it is necessary to quantify emissions from the very beginning of the extraction of the materials that are used until their final disposal. Water distribution infrastructure is built from and maintained with a range of materials. The most common are the steel used in pipes, accessories and pumps; reinforced concrete in civil construction works like tanks, manholes and anchorages; plastic in pipes and accessories; aggregates in pipeline backfill and asphalt for repaving. The carbon emissions of these materials can only be evaluated if the whole life cycle is involved, which includes the extraction of the raw material, transport, manufacturing, assembling, installation, dismantling, demolition and/or decomposition. The embodied energy is determined by the sum of the energy
sources (fuels, materials, human resources and others) that are used for product manufacturing and its use. The embodied energy tries to compute the sum of the total energy expended during all the life cycle of the product. Hammond & Jones (2008) present the embodied energy for the life cycle of some materials. Table 1 shows the embodied energy of the most common materials used in water distribution infrastructure.

**Table 1:** Embodied energy of some materials used in water infrastructure

<table>
<thead>
<tr>
<th>Material</th>
<th>Embodied energy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mj/kg</td>
<td>KWh/kg</td>
</tr>
<tr>
<td>Ductile iron for pipes</td>
<td>34.40</td>
<td>9.56</td>
</tr>
<tr>
<td>Aggregates</td>
<td>0.11</td>
<td>0.03</td>
</tr>
<tr>
<td>Asphalt</td>
<td>6.63</td>
<td>1.84</td>
</tr>
<tr>
<td>Concrete</td>
<td>2.91</td>
<td>0.81</td>
</tr>
<tr>
<td>Structural steel</td>
<td>28.67</td>
<td>7.96</td>
</tr>
</tbody>
</table>

From the data collected from Hammond & Jones (2008) and presented in table 1, it is possible to compute the total amount of embodied energy needed to build new pipes and reservoirs. The quantities of materials needed for pipeline installation are computed based on the scheme in Fig. 1. Some simplifications are assumed. The embodied energy to build the water network is determined from five materials: pipe material; aggregates to backfill pipes; asphalt for repaving, concrete and structural steel to build tanks. The units are expressed in KWh of energy per kg of material used.
To determine the embodied energy of pipe construction in the traditional way, the quantity of energy per meter of pipe is considered. The weight of the materials used to settle one meter of pipe must therefore be determined. Given the scheme in Fig. 1, we can calculate the volume of aggregates and asphalt needed for the settlement of each meter of pipe. The quantity of materials per meter is a function of the pipe’s external diameter ($ED$), since the excavation and repaving volumes increase the higher the pipe diameter $ED$. We assume ductile iron pipes and Eq. 1 is used to compute the embodied energy of the material:

$$ EE_{pipe_{Dc}} = WDc \times EE_{iron} $$

(1)

Where:

$EE_{pipe_{Dc}}$ - embodied energy of the pipe with commercial diameter $Dc$ ($KWh/m$);

$WDc$ - weight of the commercial diameter $Dc$ ($kg/m$);

$EE_{iron}$ - embodied energy of the ductile iron for pipes ($KWh/kg$).
The quantities of aggregate are a function of the commercial diameter that is to be used. The width of the trench is to the same as the external diameter of the pipes plus 0.5 m. The walls of the trench are assumed to be vertical and the entire trench is filled with aggregate. Based on this, the quantity of embodied energy of aggregates is computed by Eq. 2:

$$EE_{aggr, D_c} = \left\{\left[(0.5 + ED_{D_c}) \times (0.1 + ED_{D_c} + 0.8)\right] \times \left[\frac{\pi \times ED_{D_c}^2}{4}\right] \times 1\right\} \times W_{aggr} \times EE_{aggr}$$  \(2\)

Where:

- \(EE_{aggr, D_c}\) - embodied energy of aggregates to backfill a pipe with diameter \(D_c\) \((\text{KWh/m})\);
- \(ED_{D_c}\) - external diameter of the pipe with diameter \(D_c\) \((\text{m})\);
- \(W_{aggr}\) - weight of aggregates, equal to 2240 \((\text{kg/m}^3)\);
- \(EE_{aggr}\) - embodied energy of the material \((\text{KWh/kg})\).

Finally, the last material is asphalt. 0.2 m is assumed for the extra paving of each side of the trench. The embodied energy is computed by Eq. 3:

$$EE_{asphalt, D_c} = \left\{\left[(0.5 + ED_{D_c}) + 0.2 + 0.2\right] \times 0.1 \times 1\right\} \times W_{asphalt} \times EE_{asphalt}$$  \(3\)

Where:

- \(EE_{asphalt, D_c}\) - embodied energy of asphalt \((\text{KWh/m})\);
- \(W_{asphalt}\) - weight of the asphalt, equal to 2300 \((\text{kg/m}^3)\);
- \(EE_{asphalt}\) - embodied energy of asphalt \((\text{KWh/kg})\).

To determine the total embodied energy (Eq. 4) per meter of installed pipe, Eqs 1, 2 and 3 are added together:
\[ EE_{total_{dc}} = EE_{pipes_{dc}} + EE_{aggr_{dc}} + EE_{asphalt_{dc}} \]  \hspace{1cm} (4)

Where:

\[ EE_{total_{dc}} \] - total embodied energy of pipe installation \((KWh/m)\).

Now the embodied energy can be computed for the different commercial diameters, considering the contribution of the ductile iron pipes, aggregate to backfill the pipe and asphalt for repaving. The carbon emissions related to the total embodied energy can be computed through Eq. 5:

\[ CE_{pipe_{dc}} = EE_{total_{dc}} \times CET \]  \hspace{1cm} (5)

Where:

\[ CE_{pipe_{dc}} \] - carbon emissions of installing pipes with commercial diameter \(Dc\) \((tonCO_2/m)\);

\[ CET \] - total carbon emissions from energy generation \((tonCO_2/KWh)\).

Carbon emissions are computed assuming a value of CET=0.637×10^-3 tonCO2 per KWh of energy produced by non-renewable means and obtained by a fuel mix of 58% coal, 20% natural gas, 13% oil, 5% diesel and 4% of other means. This is a mean value of the carbon emissions of electricity generation sector by non-renewable means between 2005 and 2010 in Portugal (ERSE 2012).

This work also considered the carbon emissions related to the installation of new tanks in the network. New tanks are assumed to be cylindrical and have the same transversal area of 500 m². For simplification, the walls and the slabs of the tanks are assumed to have the same thickness, Fig. 2:
The amount of concrete is a function of the volume of the tank. The thickness of the slabs and the walls is taken to be $Th_{b} = Th_{w} = 0.35$ m and the inner radius of the tank is $r_{b} = 12.62$ m. Based on these conditions the quantity of embodied energy of concrete is computed by Eq. 6:

$$EET_{\text{concrete}} = \left[ \frac{\pi \times (r_{b} + Th_{w})^2 \times Th_{b} \times 2 + \pi \times Ht_{i} \left( \left( r_{b} + Th_{w} \right)^2 - r_{b}^2 \right)}{W_{\text{concrete}} \times EE_{\text{concrete}}} \right] \times W_{\text{concrete}} \times EE_{\text{concrete}}$$ (6)

Where:

$EET_{\text{concrete}}$ - embodied energy of concrete of the tank $t$ (KWh);

$r_{b}$ - radius of the slab of the tank, 12.62 (m);

$Th_{w}$ - thickness of the walls of the tank, 0.35 (m);

$Th_{b}$ - thickness of the slabs of the tank, 0.35 (m);

$Ht_{i}$ - height of the tank (m);

$W_{\text{concrete}}$ - weight of concrete, 2500 (kg/m$^3$);

$EE_{\text{concrete}}$ - embodied energy of concrete (KWh/kg).
The embodied energy of reinforcing steel bars for the concrete of the tanks is also considered. For this study, the quantity of steel is taken to be a percentage of the cubic meters of concrete used in civil construction works, so the embodied energy of this material is given by Eq. 7:

\[ EET_{steel} = \left[ \pi \times \left( r_b \times Th_w \right)^2 \times Th_b \right] \times 2 + \pi \times Ht_i \left[ \left( r_b + Th_w \right)^2 - r_b^2 \right] \times Q_{steel} \times EE_{steel} \]  

(7)

Where:

\( EET_{steel} \) - embodied energy of steel bars to build the tank \( t \) (KWh);

\( Q_{steel} \) - quantity of steel per cubic meter of concrete, 100 (kg/m\(^3\));

\( EE_{steel} \) - embodied energy of steel bars (KWh/kg).

Summing the values given by Eq. 6 and 7, the carbon emissions derived from constructing the tanks are determined through Eq. 8:

\[ CETK_t = (EET_{concrete} + EET_{steel}) \times CET \]  

(8)

Where:

\( CETK_t \) - carbon emissions of the tank \( t \) (tonCO\(_2\)).

In addition to the above, significant carbon emissions also arise from generating the electric energy consumed during the water infrastructure operation. Large amounts of energy are consumed resulting in important carbon emissions that should be measured by Eq. 9:

\[ CE_{op} = EC \times CET \]  

(9)
Where:

\[ CE_{op} \] - carbon emissions from energy used in the operation of the network (tonCO\(_2\));

\[ EC \] - energy consumption of the network during the operation (KWh).

Eq. 9 computes carbon emissions generated by network operation. This work does not take into account carbon emissions related to other network elements that are negligible when compared with pipe and tank construction.

By adding together the individual contributions of pipes, tanks and energy consumption we can determine the cost in terms of total carbon emissions of the water network life cycle. This cost is included in the optimization model presented in the next section.

3 Optimization model

Many scenarios are possible over the life cycle of a water distribution infrastructure. The future operating conditions of the water networks are uncertain. However, decisions have to be made and there are some constraints that further increase the complexity of the problem. The optimization of a water distribution network is very complex because the objective is to find a good solution within an enormous solution space. Furthermore, the decision variables are normally discrete, which makes it even harder to find optimum solutions.

The approach we describe uses ROs to handle different possible scenarios that can occur during the life cycle of the infrastructure. According to Wang et al. (2004),
the ROs approach has two stages: option identification and option analysis. Option identification consists of trying to find all possible scenarios for the lifetime horizon. The option analysis stage can use an optimization model to find possible solutions. This formulation enables decision makers to include additional possible situations simultaneously and to develop different decision plans throughout the life cycle.

The objective function, $OF$, includes the minimization of the costs and carbon emissions resulting from implementing and operating the network. The objective function is presented in expression 10:

$$OF = \text{Min } C_{\text{initial}} + \sum_{s=1}^{NS} \sum_{t=2}^{NTI} \left( C_{\text{future}_{t,s}} \prod_{n=1}^{t} \text{prob}_{nt,s} \right) +$$

$$+ \left[ C_{\text{Initial}} + \sum_{s=1}^{NS} \sum_{t=2}^{NTI} \left( C_{\text{Future}_{t,s}} \prod_{n=1}^{t} \text{prob}_{nt,s} \right) \right] \cdot C_{\text{EC}}$$

(10)

Where:

$C_{\text{Initial}}$ - cost of the initial solution to be implemented in year zero;

$NS$ - number of scenarios;

$NTI$ - number of time intervals into which the life cycle is subdivided;

$C_{\text{Future}_{t,s}}$ - future design costs for time $t$ in scenario $s$;

$\text{Prob}_{nt,s}$ - probability of future design in time $nt$ in scenario $s$;

$C_{\text{Initial}}$ - carbon emissions of the initial solution to be applied in year zero;

$C_{\text{Future}_{t,s}}$ - carbon emissions for time $t$ in scenario $s$;

$C_{\text{EC}}$ - carbon emissions cost.

The objective function given by Eq. 10 has to find the first stage solution, $T=1$, and future decisions to implement. The objective function is given by the sum of different terms. The initial solution cost is given by Eq. 11:
C_{\text{initial}} = \left( \sum_{i=1}^{NPI} \left( C_{\text{pipe}, i} (D_{i,1}) L_i \right) + \sum_{j=1}^{NT} C T_j + \sum_{i=1}^{NPI} \left( C_{\text{reab}, i} (D_{i,1}) L_i \right) + \sum_{j=1}^{NPU} \left( C_{\text{eps}, j} \right) \right) \
+ \left( \sum_{d=1}^{NDC} \left( C e_d \cdot \sum_{j=1}^{NPU} \frac{\gamma \cdot Q P_{j,d,1} \cdot H P_{j,d,1} \cdot \Delta t_d}{\eta_j} \right) \cdot 365 \cdot \left( \frac{(1 + IR)^{\frac{\gamma}{\eta_j}} - 1}{IR \cdot (1 + IR)^{\frac{\gamma}{\eta_j}}} \right) \right) \\
(11)

Where:

- \(NPI\) - number of pipes in the network;
- \(C_{\text{pipe}, i}(D_{i,1})\) - unit cost of pipe \(i\) as a function of the diameter \(D_{i,1}\) adopted;
- \(D_{i,1}\) - diameter of pipe \(i\) installed in time interval \(T=1\);
- \(L_i\) - length of pipe \(i\);
- \(NT\) - number of new tanks in the network;
- \(CT_j\) - cost of tank \(j\);
- \(C_{\text{reab}, i}(D_{i,1})\) - unit cost to rehabilitate existing pipe \(i\) as a function of diameter \(D_{i,1}\);
- \(NPU\) - number of pumps in the network;
- \(C_{\text{eps}, j}\) - equipment cost of pump \(j\) for time interval \(T=1\);
- \(NDC\) - number of demand conditions considered for the design;
- \(C e_d\) - cost of energy for demand condition \(d\);
- \(\gamma\) - specific weight of water;
- \(Q P_{j,d,1}\) - discharge of pump \(j\) for demand condition \(d\) and time interval \(T=1\);
- \(H P_{j,d,1}\) - head of pump \(j\) for demand condition \(d\) and time interval \(T=1\);
- \(\eta_j\) - efficiency of pump \(j\);
- \(\Delta t_d\) - time in hours for demand condition \(d\);
- \(IR\) - annual interest rate for updating the costs;
\( NY \) - number of years under the same conditions considered for time interval \( T=1 \).

The term \( C_{\text{initial}} \) (Eq. 11) computes the network cost for the first stage. This term is given by the sum of the cost of pipes, the cost of the tanks, the rehabilitation cost of the existing pipes, the cost of new pumps and the present value energy cost. The pump cost is given by Eq. 12:

\[
C_{\text{eps}} = 700473.4Q^{0.7}H_m^{0.4}
\]  

(12)

Where:

\( C_{\text{eps}} \) - cost of the pump;

\( Q \) - flow of pump \( (m^3/s) \);

\( H_m \) - head of pump \( (m) \).

The other term of the objective function is given by the weighted sum of the future costs. The future cost is computed by Eq. 13:

\[
C_{\text{future},i,j} = \left( \sum_{i=1}^{NP_{i,j}} \left( C_{\text{pipe}}(D_{j,i})L_{i} \right) \cdot \frac{1}{(1+IR)^{ky}} \right) + \sum_{j=1}^{NP_{x,i}} \left( C_{\text{eps}}(i,j) \right) \cdot \frac{1}{(1+IR)^{ky}} + \\
\left( \sum_{j=1}^{NO} \left( C_{e_i} \cdot \sum_{j=1}^{NP_{x,i}} \frac{Q P_{d,i,j} \cdot H P_{i,d,j} \cdot \Delta L_{j}}{\eta_j} \right) \cdot 365 \cdot \frac{(1+IR)^{kX} - 1}{IR \cdot (1+IR)^{kX}} \cdot \frac{1}{(1+IR)^{ky}} \right)
\]  

(13)

The future cost is computed for all time intervals beginning at \( T=2 \) (the cost is already computed for the first time interval) and is given as the sum of three terms. The first term computes the present value cost of the pipes to be laid in the different time intervals and scenarios, the second term computes the present value equipment cost of
the pumps for the different time intervals and for the different scenarios, and finally the third term computes the present value of energy cost for each scenario.

The sum of the initial and the future costs give the network cost for the entire time horizon, considering future uncertainty. Looking at events on statistically independent decision nodes, the probabilities for the different scenarios can be computed by the product of the probabilities of the decision nodes in each path for all the time periods.

Finally, a term to compute the environmental impacts of the water supply system is also added. This term is computed as the sum of two terms multiplied by the carbon emission cost, CEC. These terms are introduced in Eqs 14 and 15.

\[
CE_{initial} = \left( \sum_{i=1}^{NPI} \left( C{E}_{pipe}(D_{i,1}) L_i \right) + \sum_{i=1}^{NT} CETK_i + \left( + \sum_{d=1}^{NDC} \left( CET \cdot \sum_{j=1}^{NPJ} \frac{\gamma \cdot QP_{j,d,1} \cdot HP_{j,d,1}}{\eta_j} \cdot \Delta t_d \right) \cdot 365 \cdot NY_i \right) \right)
\]  

(14)

\[
CE_{future_{i,s}} = \left( \sum_{i=1}^{NPI} \left( C{E}_{pipe}(D_{i,s}) L_i \right) + \left( + \sum_{d=1}^{NDC} \left( CET \cdot \sum_{j=1}^{NPJ} \frac{\gamma \cdot QP_{j,d,s} \cdot HP_{j,d,s}}{\eta_j} \cdot \Delta t_d \right) \cdot 365 \cdot NY_i \right) \right)
\]  

(15)

Eq. (14) computes the total carbon emissions for the first operation period and Eq. (15) computes the carbon emissions for the different future scenarios weighted by their probability of occurrence. The initial carbon emissions are calculated by adding together the carbon emissions related to the pipe installation, tank construction and energy consumption. The carbon emissions in the future scenarios are computed using a similar procedure. These emissions are multiplied by the unit carbon emission cost CEC. It
should be noted that the carbon emissions costs are not updated. A zero discount rate should be used for carbon emissions (Wu et al. 2010). This is complies with the recommendation of the Intergovernmental Panel on Climate Change (IPCC). High carbon emissions degrade air quality and thus it seems prudent and ethical to think about future generations and assign the same importance (or value) to the carbon emissions of today as well as those in future. A zero discount rate implies the same weight for current and future costs.

The objective function represents the network cost for the entire time horizon. Some decisions have to be taken now, but others can be delayed until such time as future uncertainties are determined. The ROs framework enables water infrastructure to be designed with some decisions postponed to a future date.

4 case study

A well-known water network was used to demonstrate the application of the ROs approach. The case study was based on a hypothetical network inspired by Walski et al. (1987). The network aims to represent an old town, small in size, Fig. 3.
**Figure 3:** Scheme of the network (inspired from Walski et al. 1987)

Fig. 3 shows a water distribution network planned for the next 60 years. However, this planning horizon is subdivided into 3 time intervals of 20 years. In the first 20 years of operation, some decisions have to be made. The water company is held to need to improve the network capacity to satisfy future demand during the first 20-year time interval. However, 8 different possible future scenarios could be considered, as shown in Fig 4.

This work considers a number of expansion areas. For T=2 the authorities are planning to build a new industrial area (NIA) and a new public services area (NPA) with some facilities near the river, so in this time interval the network may be extended to those two areas. For T=3 it is predicted that a new residential area (NRA) may be developed close to the industries and public services, because of the labour required by
the new industries and the public services facilities. However, if these areas are not built
the area near the river may see a decline in population and the water consumption could
fall to 75%. The areas in question are shown in Fig. 3.

![Decision tree and probabilities of occurrence for the life cycle](image)

**Figure 4:** Decision tree and probabilities of occurrence for the life cycle

Finally, the probabilities for each path of the different scenarios should be
indicated. The probabilities for the different paths of the systems for the case study are
shown in Fig. 4. The probabilities of the scenarios are computed by the product for all
the time periods of the decision node probabilities in each path.

The network has two tanks operating with water levels between the elevations of
65.53 m and 77.22 m and each with a capacity of 1,136 m³, but according to the original
case study the company wants to operate the tanks between 68.58 and 76.20 m. The
volume between 65.53 m and 68.58 m is used for emergency needs and amounts to a
volume of 284 m³ in each tank. A minimum pressure of 28.14 m is required at all nodes
for average daily flow conditions, and the instantaneous peak flow is given as the
average nodal demand multiplied by 1.8. The system is also subject to three different
firefighting conditions, each lasting two hours. The minimum nodal pressures under
firefighting conditions are 14.07 m. The firefighting conditions are: 157.73 L/s at node
9; 94.64 L/s at nodes 18, 20, 21; and 63.09 L/s at nodes 12 and 16. These fire flows
should be met simultaneously with a daily peak flow 1.3 times the average flow. All the
pressure requirements should be assured when one pump is out of service and the tanks
are at the minimum levels after a normal operating day.

This problem is solved by considering the design and operation of the network
simultaneously. The city has grown up around an old centre located to the southeast of
link 14. Excavations in this area cost more than in other areas. There is an adjacent
residential area with some industries near node 16. The reinforcement possibilities are
to duplicate existing pipes, clean and line existing pipes, install new pumps and build
new tanks. The city is supplied from a water treatment plant and three identical pumps
connected in parallel. Pumps have to be replaced every 20 years, but according to the
original case study, there are already pumps in the first time interval and there is no cost
associated with installation. The possibility of installing 2 additional pumps in parallel
is considered if additional capacity is required. The water treatment plant is maintained
at a fixed level of 3.048 m. The characteristics of the links are given in table 2.

Table 2: Characteristics of the pipes

<table>
<thead>
<tr>
<th>Pipe</th>
<th>Initial node</th>
<th>Final node</th>
<th>Length (m)</th>
<th>Existing</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>7</td>
<td>3657.60</td>
<td>406.4</td>
<td>Urban</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3657.60</td>
<td>304.8</td>
<td>Residential</td>
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<tr>
<td>3</td>
<td>2</td>
<td>11</td>
<td>3657.60</td>
<td>304.8</td>
<td>Urban</td>
</tr>
<tr>
<td>4</td>
<td>7</td>
<td>3</td>
<td>2743.20</td>
<td>304.8</td>
<td>Residential</td>
</tr>
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<td>5</td>
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<td>10</td>
<td>1828.80</td>
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<th>Water Use (L/s)</th>
<th>Classification</th>
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<tr>
<td>37</td>
<td>38</td>
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<td>27 1828.80 New</td>
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<tr>
<td>50</td>
<td>51</td>
<td>27</td>
<td>18 1828.80 New</td>
</tr>
</tbody>
</table>

The average daily water demand for nodes is presented in table 3 as along with the elevation of the nodes and tanks.

**Table 3:** Characteristics of the nodes
Demand varies during an operating day. Table 4 shows the demand variation in 24 hours. For example, between 0 – 3 hours the demand is 70% of the average daily demand.

**Table 4:** Variation of demand during 24 hours operation

<table>
<thead>
<tr>
<th>Daily period</th>
<th>Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 3h</td>
<td>0.7</td>
</tr>
<tr>
<td>3 - 6h</td>
<td>0.6</td>
</tr>
<tr>
<td>6 - 9h</td>
<td>1.2</td>
</tr>
<tr>
<td>9 - 12h</td>
<td>1.3</td>
</tr>
<tr>
<td>12 - 15h</td>
<td>1.2</td>
</tr>
<tr>
<td>15 - 18h</td>
<td>1.1</td>
</tr>
<tr>
<td>18 - 21h</td>
<td>1.0</td>
</tr>
<tr>
<td>21 - 24h</td>
<td>0.9</td>
</tr>
</tbody>
</table>

It is possible to duplicate or clean and line 35 pipes. There are also 13 new links in the expansion areas. The commercial diameters and the unit cost of new pipes, cleaning and lining, as function of the network area, are given in table 5.

**Table 5:** Diameters and unit cost

<table>
<thead>
<tr>
<th>Pipe</th>
<th>Unit cost</th>
</tr>
</thead>
</table>


<table>
<thead>
<tr>
<th>diameter (mm)</th>
<th>Installation of pipes</th>
<th>Cleaning and lining existing pipes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban ($/m)</td>
<td>Residential ($/m)</td>
</tr>
<tr>
<td>152.4</td>
<td>85.958</td>
<td>46.588</td>
</tr>
<tr>
<td>203.2</td>
<td>91.207</td>
<td>64.961</td>
</tr>
<tr>
<td>254.0</td>
<td>111.877</td>
<td>82.349</td>
</tr>
<tr>
<td>304.8</td>
<td>135.827</td>
<td>106.299</td>
</tr>
<tr>
<td>355.6</td>
<td>164.698</td>
<td>131.890</td>
</tr>
<tr>
<td>406.4</td>
<td>191.929</td>
<td>159.121</td>
</tr>
<tr>
<td>457.2</td>
<td>217.192</td>
<td>187.664</td>
</tr>
<tr>
<td>508.0</td>
<td>251.969</td>
<td>219.160</td>
</tr>
<tr>
<td>609.6</td>
<td>358.268</td>
<td>280.512</td>
</tr>
<tr>
<td>762.0</td>
<td>467.520</td>
<td>380.906</td>
</tr>
</tbody>
</table>

If a pipe has been cleaned and lined, the Hazen-Williams coefficient is then $C=125$, and if there is a new pipe it is $C=130$. Over the life cycle, pipes age and wall roughness increases. Based on the DWSD (2004) report, the Hazen-Williams coefficients of ductile iron pipes decrease at a fixed rate of 2.5 per decade. Obviously this rate depends on all kinds of different conditions and is also time dependent. But to simplify the problem we have assumed a fixed rate for the life cycle.

The 24 hour operation of the network is subdivided into 1-hour time steps. Three pumps have to supply the daily needs. This work considers the possibility of installing two extra parallel pumps because of planned building of new areas. The number of the pumps used in the 24 hours results in additional variables to solve in the optimization problem, in each time interval and for each scenario. Table 6 gives five points of the characteristic curves for each pump. These curves are to the same as in the original case study.

Table 6: Function points of each pump
The energy costs are $0.12 per KWh. The present value costs are computed using a discount rate of 4% over the life cycle. According to Wu et al. (2010) defining discount rates is a very complex issue and they normally vary from 2 to 10%. This work takes a 4% rate to emphasize the importance of the future costs in the decision-making process. There is also the possibility of installing new tanks at the nodes in the network. Tanks are connected to nodes by a short pipe 30.48 m long whose pipe varies. Tank cost is a function of the volume and is given in table 7. These data are to the same as in the original case study.

<table>
<thead>
<tr>
<th>Flow (L/s)</th>
<th>Pump head (m)</th>
<th>Efficiency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>91.5</td>
<td>0</td>
</tr>
<tr>
<td>126.2</td>
<td>89.1</td>
<td>50</td>
</tr>
<tr>
<td>252.4</td>
<td>82.4</td>
<td>65</td>
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<tr>
<td>378.5</td>
<td>70.2</td>
<td>55</td>
</tr>
<tr>
<td>504.7</td>
<td>55.2</td>
<td>40</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 7: Tank cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume (m³)</td>
</tr>
<tr>
<td>------------</td>
</tr>
<tr>
<td>227.3</td>
</tr>
<tr>
<td>454.6</td>
</tr>
<tr>
<td>1136.5</td>
</tr>
<tr>
<td>2273.0</td>
</tr>
<tr>
<td>4546.0</td>
</tr>
</tbody>
</table>

Finally, it is held that the tank installation and rehabilitation of the existing pipes can only occur in the first time interval and has to perform well relative to all the possible future conditions given in Fig. 5. Based on Eq. 4, the embodied energy is calculated for different commercial diameters used in this work and is shown in table 8.
Table 8: Embodied energy and carbon emissions arising from installing commercial diameters

<table>
<thead>
<tr>
<th>Diameters (mm)</th>
<th>Ductile iron pipes (KWh/m)</th>
<th>Aggregates (KWh/m)</th>
<th>Asphalt (KWh/m)</th>
<th>Embodied energy (KWh/m)</th>
<th>Total emissions (tonCO₂/m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>152.4</td>
<td>269.88</td>
<td>44.91</td>
<td>445.38</td>
<td>760.17</td>
<td>0.48</td>
</tr>
<tr>
<td>203.2</td>
<td>406.20</td>
<td>49.95</td>
<td>466.87</td>
<td>923.03</td>
<td>0.59</td>
</tr>
<tr>
<td>254.0</td>
<td>575.89</td>
<td>55.07</td>
<td>488.37</td>
<td>1119.33</td>
<td>0.71</td>
</tr>
<tr>
<td>304.8</td>
<td>705.15</td>
<td>60.26</td>
<td>509.87</td>
<td>1275.27</td>
<td>0.81</td>
</tr>
<tr>
<td>355.6</td>
<td>776.37</td>
<td>65.52</td>
<td>531.37</td>
<td>1373.26</td>
<td>0.87</td>
</tr>
<tr>
<td>406.4</td>
<td>890.32</td>
<td>70.86</td>
<td>552.87</td>
<td>1514.05</td>
<td>0.96</td>
</tr>
<tr>
<td>457.2</td>
<td>1004.37</td>
<td>76.27</td>
<td>574.37</td>
<td>1655.01</td>
<td>1.05</td>
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<tr>
<td>508.0</td>
<td>1118.33</td>
<td>81.75</td>
<td>595.87</td>
<td>1795.95</td>
<td>1.14</td>
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<tr>
<td>609.6</td>
<td>1346.24</td>
<td>92.95</td>
<td>638.86</td>
<td>2078.05</td>
<td>1.32</td>
</tr>
<tr>
<td>762.0</td>
<td>1688.10</td>
<td>110.30</td>
<td>703.36</td>
<td>2501.77</td>
<td>1.59</td>
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</table>

Table 8 shows the embodied energy computed for the different commercial diameters, considering the contribution of the ductile iron pipes, aggregates for pipe bedding and asphalt for repaving works. The last column (right) of the table shows the carbon emissions of the total embodied energy. The optimization model described here is intended to minimize the installation cost of pipes, pumps and tanks, the energy cost and the carbon cost. The carbon emission costs are calculated assuming a carbon tax given by a value associated with each carbon tonne emitted. This study takes $5 as reference value and defined according to European Union allowances market, but different values can be easily accommodated by the model.

5 Results

The approach described here uses ROs to minimize the life cycle costs of water distribution systems, taking uncertainty into consideration. When a long time horizon is considered, the future is unknown. The water demand will certainly vary considerably. New urban developments can be built and others can become depopulated. The ROs
approach can handle these uncertainties and give decision makers good design solutions for flexible water networks. This work uses a decision tree with 8 possible different scenarios that may occur over the 60-year life cycle. However, it is only necessary to decide the configuration of the network for the first time period of 20 years. The solution of this period should not only work well in the first stage, but also take into account future (uncertain) needs. This is a robust solution that will be adapted in the subsequent time intervals as circumstances evolve.

The model is solved using the hydraulic simulator EPANET (Rossman 2000) to verify the hydraulic constraints. The simulated annealing heuristic is the optimization method used. The problem addressed in our work is large, nonlinear and complex and involves discrete decision variables. Modern heuristics such as simulated annealing, genetic algorithms, particle swarm optimisation, and others, have proved to be effective in solving similar problems. A literature review shows that simulated annealing has been used in various fields with problems of similar mathematical characteristics and good performances were observed. Simulated annealing has been successfully implemented in several areas as such: aquifer management (Cunha, 1999); water treatment plants (Afonso and Cunha, 2007); wastewater systems (Zeferino et al., 2012); rail planning networks (Costa et al., 2013); water distribution design (Cunha and Sousa, 2001); (Reca et al., 2007) and (Reca et al., 2008).

Simulated annealing is an iterative process based on Monte Carlo method and inspired by an analogy made between the annealing process as a metal cools into a minimum energy crystalline structure and a search for a global minimum solution in an optimization problem. The simulated annealing approach used is based on Cunha and Sousa (1999) and Cunha and Sousa (2001). A more detailed analysis of the application
and parameterization of this method to the optimization of water distribution networks
can be found in these papers. In brief, the basic idea of simulated annealing rests on the
analogy made between the temperature reduction of physical systems and the
minimization problem. The simulated annealing temperature is used in the Metropolis
criterion (Metropolis et al. 1953) to accept uphill moves in terms of cost. The
temperature starts at high value so that a high proportion of attempted changes are
accepted. As the iterative process progresses, the temperature is reduced according to an
annealing schedule defined in our work by a geometric progression with a cooling
factor of 0.90. A minimum number of generations are required to reduce the
temperature. In each reduction in temperature, the proportion of accepted moves goes
down until, finally, no uphill moves (in cost) are accepted. If the simulated annealing
has been performed slowly enough the final solution should be the global minimum.
Fig. 5 gives the solution achieved by the approach described. The results are represented
in a life cycle tree that has the same shape as the decision-making alternatives
reproduced in Fig. 4.

Fig. 5 summarizes the design achieved for the case study. A table is presented
for each node with the results of the design, starting by showing the pipe rehabilitation
decisions, the new parallel pipes and the tank locations and capacities. The present
value costs are subdivided into the cost of the pipes, tanks, pumps, energy, carbon
emissions and total costs. The last branches of the decision tree represent the total life
cycle cost for each of the scenarios.

It can be concluded from the results that the life cycle cost depends on the
decisions that are taken in the time intervals. However, the first time interval of 0-20
years accounts for most of investment costs. In this time interval the network will be
reinforced with some new parallel pipes, new tanks and the cleaning and lining of existing pipes. The total cost takes the carbon emissions arising from the installation of pipes and tanks and from energy consumption into account. The solution for scenario 1 is schematized in figure 6.
Figure 5: Decision tree design of Anytown network

**Figure 6:** Scheme of the network for the last time interval of scenario 1

For scenario 1 the water distribution network will be expanded in the second time interval to cope with the new industrial area and the new public area. Furthermore the network will be expanded for the new residential area in the last time interval. Fig. 6 shows the pipes that will be cleaned, the diameters of the new parallel pipes and the diameters of the pipes installed in the new areas. The location of the new tanks and the inclusion of two additional parallel pumps are also shown. These interventions will result in a total life cycle cost of $46,975,016, including the carbon emissions cost of the construction and operation of the water distribution network. This is the most expensive solution. But if the life cycle does not follow the decision path of scenario 1 then other interventions will occur. In the case of scenario 8, the network does not need to expand to new areas, so the life cycle cost is approximately 10% lower than for
scenario 1. The ROs solution can handle uncertainties according to the life tree and adapt the solution to new requirements.

The ROs solution for the first time interval has to be implemented at year zero. To show that considering carbon emissions in the optimization model has an impact on the final solution, a comparison is made of the first time interval solution with and without carbon emissions costs. If the carbon emission costs are taken as zero, different results are obtained. Table 9 shows some comparisons regarding costs.

**Table 9:** Comparison of solutions with and without carbon emission costs

<table>
<thead>
<tr>
<th>Costs</th>
<th>With CO2 costs</th>
<th>Without CO2 costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pipes</td>
<td>8,931,410</td>
<td>8,010,350</td>
</tr>
<tr>
<td>Tanks</td>
<td>1,650,783</td>
<td>1,324,100</td>
</tr>
<tr>
<td>Pumps</td>
<td>3,118,800</td>
<td>3,118,800</td>
</tr>
<tr>
<td>Energy</td>
<td>12,125,541</td>
<td>13,393,570</td>
</tr>
<tr>
<td>CO2</td>
<td>1,073,035</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>26,899,569</td>
<td>25,846,820</td>
</tr>
</tbody>
</table>

If carbon emission costs are taken into account the total cost is high, but it can be seen that the difference is practically accounted for by the carbon emission costs. However, other conclusions can also be drawn. Most of the carbon emissions are derived from the energy consumed by the pumps. If carbon costs are not included, the optimization model will find solutions that have high energy costs with some reduction in pipe and tank costs. Table 9 shows that if the total cost of the pipes, tanks, pumps and energy are kept practically the same, the consideration of carbon emissions implies allocating the costs in a different way, i.e. by decreasing the cost of the pipes and tank and increasing the energy cost. Larger diameter pipes allow the energy expenditure to be cut, with a consequent reduction in the total carbon emissions.
6 Conclusions

The scientific community has made efforts in recent years to find tools to optimize water network design and operation. Water distribution infrastructure has a high cost and is essential to people’s well-being. This work has tried to find good solutions for water distribution networks that may operate under uncertain future scenarios, and considering the carbon emission costs generated by installation and operation works.

The application of the ROs approach has been examined in the search for a flexible, robust solution to a water distribution network design and operation problem that includes the carbon emission costs. The problem consisted of finding the minimum cost solution for a design whose variables included additional new pipes, cleaning and lining existing pipes, replacement of existing pipes, siting and sizing of new tanks and installing and operating pumps. The optimization algorithm was based on simulated annealing, a method that can be successfully applied to solve such problems.

The results indicate that the ROs approach is able to identify good solutions for flexible networks. The simultaneous optimization of the network and carbon emission costs achieves solutions that take into account the environmental impacts of the networks. The solution presented provides flexibility to the network and automatically minimizes the carbon emissions. The solution was obtained using the life cycle decision tree. It can be also concluded that if carbon emission costs are considered it is possible to find solutions with practically the same investment costs but with lower carbon emissions. This is achieved by higher investment cost and lower spending on energy.
Further improvements can still be achieved by considering better carbon emission estimations and comparing the results for real networks.

7 Acknowledgments

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8 References


