# ASSUMPTIONS TO THE ANNUAL ENERGY OUTLOOK 2010

## WITH PROJECTIONS TO 2035
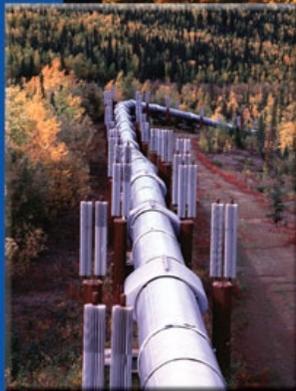
**eia** U.S. Energy Information Administration

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# Contents

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# Introduction

This report presents the major assumptions of the National Energy Modeling System (NEMS) used to generate the projections in the *Annual Energy Outlook 2010* [1] (*AEO2010*), including general features of the model structure, assumptions concerning energy markets, and the key input data and parameters that are the most significant in formulating the model results. Detailed documentation of the modeling system is available in a series of documentation reports [2].

## The National Energy Modeling System

The projections in the *AEO2010* were produced with the NEMS, which is developed and maintained by the Office of Integrated Analysis and Forecasting of the Energy Information Administration (EIA) to provide projections of domestic energy-economy markets in the long term and perform policy analyses requested by decisionmakers in the White House, U.S. Congress, offices within the Department of Energy, including DOE Program Offices, and other government agencies. The Annual Energy Outlook (*AEO*) projections are also used by analysts and planners in other government agencies and outside organizations.

The time horizon of NEMS is approximately 25 years, the period in which the structure of the economy and the nature of energy markets are sufficiently understood that it is possible to represent considerable structural and regional detail. Because of the diverse nature of energy supply, demand, and conversion in the United States, NEMS supports regional modeling and analysis in order to represent the regional differences in energy markets, to provide policy impacts at the regional level, and to portray transportation flows. The level of regional detail for the end-use demand modules is the nine Census divisions. Other regional structures include production and consumption regions specific to oil, natural gas, and coal supply and distribution, the North American Electric Reliability Council (NERC) regions and subregions for electricity, and the Petroleum Administration for Defense Districts (PADDs) for refineries. Maps illustrating the regional formats used in each module are included in this report. Only selected regional results are presented in the *AEO2010,* which predominately focuses on the national results. Complete regional and detailed results are available on the EIA Forecasts and Analyses Home Page (http://www.eia.doe.gov/oiaf/aeo/index.html)

For each fuel and consuming sector, NEMS balances the energy supply and demand, accounting for the economic competition between the various energy fuels and sources. NEMS is organized and implemented as a modular system (Figure 1). The modules represent each of the fuel supply markets, conversion sectors, and end-use consumption sectors of the energy system. NEMS also includes a macroeconomic and an international module. The primary flows of information between each of these modules are the delivered prices of energy to the end user and the quantities consumed by product, region, and sector. The delivered prices of fuel encompass all the activities necessary to produce, import, and transport fuels to the end user. The information flows also include other data such as economic activity, domestic production, and international petroleum supply availability.

The integrating module of NEMS controls the execution of each of the component modules. To facilitate modularity, the components do not pass information to each other directly but communicate through a central data storage location. This modular design provides the capability to execute modules individually, thus allowing decentralized development of the system and independent analysis and testing of individual modules. This modularity allows use of the methodology and level of detail most appropriate for each energy sector. NEMS solves by calling each supply, conversion, and end-use demand module in sequence until the delivered prices of energy and the quantities demanded have converged within tolerance, thus achieving an economic equilibrium of supply and demand in the consuming sectors. Solution is reached annually through the projection horizon. Other variables are also evaluated for convergence such as petroleum product imports, crude oil imports, and several macroeconomic indicators.

**Figure 1.   National Energy Modeling System**
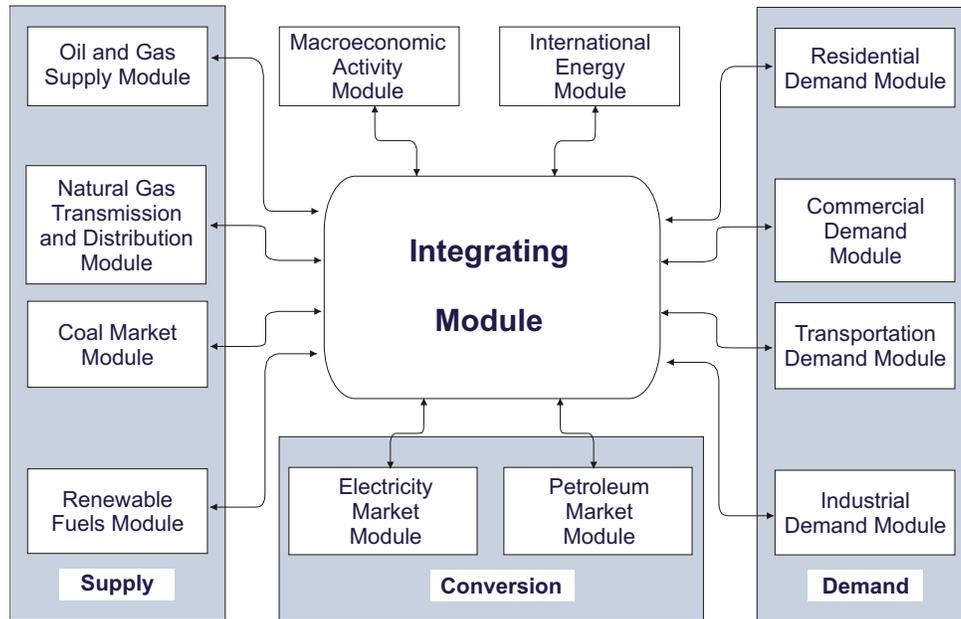


Source: Energy Information Administration, Office of Integrated Analysis and Forecasting.

Each NEMS component also represents the impact and cost of Federal legislation and regulation that affect the sector and reports key emissions. NEMS generally reflects all current legislation and regulation that are defined sufficiently to be modeled as of October 31, 2009, such as the American Recovery and Reinvestment Act (ARRA) which was enacted in mid-February 2009, the Energy Improvement and Extension Act of 2008 (EIEA2008) signed iinto law on October 3, 2008; the Food, Conservation, and Energy Act of 2008; the Energy Independence and Security Act of 2007 (EISA2007), which was signed into law on December 19, 2007; and the cost of compliance with regulations (such as stationary diesel regulations issued by the U.S. Environmental Protection Agency (EPA) in July 2006).  The *AEO2010* models do not represent the Clean Air Mercury Rule (CAMR), which was vacated and remanded by the D.C. Circuit Court of the U.S. Court of Appeals on February 8, 2008, but it does represent State requirements for the reduction of mercury emissions.  The *AEO2010* reference case reflects the temporary reinstatement of the $NO_x$ and $SO_2$ cap-and-trade programs included in the Clean Air Interstate Rule (CAIR) [3] due to the ruling issued by the United States Court of Appeals for the district of Columbia on December 23, 2008.  However, the potential impacts of pending or proposed Federal and State legislation, regulations, or standards—or of sections of legislation that have been enacted but that require implementing regulations or appropriation of funds that are not provided or specified in the legislation itself—are not reflected in NEMS. A list of the specific Federal and selected State legislation and regulations included in the *AEO*, including how they are incorporated, is provided in Appendix A.

# Component Modules

The component modules of NEMS represent the individual supply, demand, and conversion sectors of domestic energy markets and also include international and macroeconomic modules. In general, the modules interact through values representing the prices of energy delivered to the consuming sectors and the quantities of end-use energy consumption. This section provides brief summaries of each of the modules.

## *Macroeconomic Activity Module*

The Macroeconomic Activity Module (MAM) provides a set of macroeconomic drivers to the energy modules and receives energy-related indicators from the NEMS energy components as part of the macroeconomic feedback mechanism within NEMS. Key macroeconomic variables used in the energy modules include gross domestic product (GDP), disposable income, value of industrial shipments, new housing starts, sales of new light-duty vehicles (LDVs), interest rates, and employment. Key energy indicators fed back to MAM

include aggregate energy prices and costs. The MAM module uses the following models from IHS Global Insight: Macroeconomic Model of the U.S. Economy, National Industry Model, and National Employment Model. In addition, EIA has constructed a Regional Economic and Industry Model to project regional economic drivers and a Commercial Floorspace Model to project 13 floorspace types in 9 Census divisions. The accounting framework for industrial value of shipments uses the North American Industry Classification System (NAICS).

## International Module

The International Energy Module (IEM) uses assumptions of economic growth and expectations of future U.S. and world petroleum liquids production and consumption, by year, to project the interaction of U.S. and international liquids market. The IEM computes world oil prices, provides a world crude-like liquids supply curve, generates a worldwide liquids supply/demand balance for each year of the projection period, and computes initial estimates of crude oil and light and heavy petroleum product imports for the United States by Petroleum Allocation Defense District (PADD) regions. The supply-curve calculations are based on historical market data and a world liquids supply/demand balance, which is developed from reduced-form models of international liquids supply and demand, current investment trends in exploration and development, and long-term resource economics for 221 countries/territories. The liquids production estimates include both conventional and unconventional supply recovery technologies.

In the interaction with the rest of NEMS, the IEM changes the world oil price (WOP), which is defined as the price of foreign light, low sulfur crude oil delivered to Cushing, Oklahoma, (Petroleum Allocation Defense District 2) in response to changes in expected crude and product liquids produced and consumed in the United States.

## Residential and Commercial Demand Modules

The Residential Demand Module projects energy consumption in the residential sector by housing type and end use, based on delivered energy prices, the menu of equipment available, the availability and cost of renewable sources of energy, and housing starts. The Commercial Demand Module projects energy consumption in the commercial sector by building type and nonbuilding uses of energy and by category of end use, based on delivered prices of energy, availability of renewable sources of energy, and macroeconomic variables representing interest rates and floorspace construction.

Both modules estimate the equipment stock for the major end-use services, incorporating assessments of advanced technologies, including representations of renewable energy technologies, and the effects of both building shell and appliance standards, including the recent regional standards for furnaces, heat pumps, and central air conditioners agreed to by manufacturers and environmental interest groups. The Commercial Demand Module incorporates combined heat and power (CHP) technology. The modules also include projections of distributed generation. Both modules incorporate changes to "normal" heating and cooling degree-days by Census division, based on a 10-year average and on State-level population projections. The Residential Demand Module projects an increase in the average square footage of both new construction and existing structures, based on trends in the size of new construction and the remodeling of existing homes.

## Industrial Demand Module

The Industrial Demand Module projects the consumption of energy for heat and power, feedstocks, and raw materials in each of 21 industries, subject to the delivered prices of energy and the values of macroeconomic variables representing employment and the value of shipments for each industry. As noted in the description of the MAM, the value of shipments is based on NAICS. The industries are classified into three groups—energy-intensive manufacturing, non-energy-intensive manufacturing, and nonmanufacturing. Of the eight energy-intensive industries, seven are modeled in the Industrial Demand Module, with energy-consuming components for boiler/steam/cogeneration, buildings, and process/assembly use of energy. A new bulk chemical model was implemented for the *AEO2010*. The new model calculates the production (in physical units), process shares, and process energy requirements for 26 specific chemicals and four aggregate groups of bulk chemicals. A generalized representation of cogeneration and a recycling component also are included. The use of energy for petroleum refining is modeled in the PMM, and the projected consumption is included in the industrial totals.

## Transportation Demand Module

The Transportation Demand Module projects consumption of fuels in the transportation sector, including petroleum products, electricity, methanol, ethanol, compressed natural gas, and hydrogen, by transportation mode, vehicle vintage, and size class, subject to delivered prices of energy fuels and macroeconomic variables representing disposable personal income, GDP, population, interest rates, and industrial shipments. Fleet vehicles are represented separately to allow analysis of other legislation and legislative proposals specific to those market segments. The transportation demand module also includes a component to assess the penetration of alternative-fuel vehicles (AFVs). EPACT2005 and the Energy Improvement and Extension Act of 2008 (EIEA2008) are reflected in the assessment of the impacts of tax credits on the purchase of hybrid gas-electric, alternative-fuel, and fuel-cell vehicles. The corporate average fuel economy (CAFE) and biofuel representation in the module reflect standards proposed by the National Highway Traffic Safety Administration (NHTSA), the Environmental Protection Agency, and provisions in EISA2007.

The air transportation component of the Transportation Demand Module explicitly represents air travel in domestic and foreign markets and includes the industry practice of parking aircraft in both domestic and international markets to reduce operating costs, as well as the movement of aging aircraft from passenger to cargo markets. For passenger travel and air freight shipments, the module represents regional fuel use in regional, narrow-body, and wide-body aircraft. An infrastructure constraint, which is also modeled, can potentially limit overall growth in passenger and freight air travel to levels commensurate with industry-projected infrastructure expansion and capacity growth.

## Electricity Market Module

There are three primary submodules of the Electricity Market Module —capacity planning, fuel dispatching, and finance and pricing. The capacity planning submodule uses the stock of existing generation capacity, the menu, cost and performance of future generation capacity, expected fuel prices, expected financial parameters, expected electricity demand, and expected environmental regulations to project the optimal mix of new generation capacity that should be added in future years. The fuel dispatching submodule uses the existing stock of generation equipment, their O&M costs and performance, the fuel prices to the electricity sector , electricity demand, and all applicable environmental regulations to determine the least cost way to meet that demand; the submodule also produces the transmission and pricing of electricity. The finance and pricing submodule uses the capital costs, fuel costs, and macroeconomic parameters, environmental regulations, along with load shapes to estimate the generation costs from each technology.

All specifically identified options promulgated by the EPA for compliance with the Clean Air Act Amendments of 1990 (CAAA90) are explicitly represented in the capacity expansion and dispatch decisions; those that have not been promulgated (e.g., fine particulate proposals) are not incorporated. All financial incentives for power generation expansion and dispatch specifically identified in EPACT2005 have been implemented. Several States, primarily in the Northeast, have recently enacted air emission regulations for $CO_2$ that affect the electricity generation sector, and those regulations are represented in *AEO2010*.

Although currently there is no Federal legislation in place that restricts greenhouse gas (GHG) emissions, regulators and the investment community have begun to push energy companies to invest in technologies that are less GHG-intensive. The trend is captured in the *AEO2010* reference case through a 3-percentage-point increase in the cost of capital when investments in new coal-fired power plants and new coal-to-liquids (CTL) plants without carbon capture and sequestration (CCS) are evaluated.

## Renewable Fuels Module

The Renewable Fuels Module (RFM) includes submodules representing renewable resource supply and technology input information for central-station, grid-connected electricity generation technologies, including conventional hydroelectricity, biomass (dedicated biomass plants and co-firing in existing coal plants), geothermal, landfill gas, solar thermal electricity, solar photovoltaics (PV), and wind energy. The RFM contains renewable resource supply estimates representing the regional opportunities for renewable energy development. Investment tax credits (ITCs) for renewable fuels are incorporated, as currently enacted, including a permanent 10-percent ITC for business investment in solar energy (thermal nonpower uses as well as power uses) and geothermal power (available only to those projects not accepting the production tax credit [PTC] for geothermal power). In addition, the module reflects the increase in the ITC to 30 percent for

solar energy systems installed before January 1, 2017, and the extension of the credit to individual homeowners under EIEA2008.

PTCs for wind, geothermal, landfill gas, and some types of hydroelectric and biomass-fueled plants also are represented. They provide a credit of up to 2.0 cents per kilowatthour for electricity produced in the first 10 years of plant operation. For *AEO2010*, new wind plants coming on line before January 1, 2013, are eligible to receive the PTC; other eligible plants must be in service before January 1, 2014. As part of the ARRA, plants eligible for the PTC may instead elect to receive a 30 percent ITC or an equivalent direct grant. *AEO2010* also accounts for new renewable energy capacity resulting from State renewable portfolio standard (RPS) programs, mandates, and goals.

## Oil and Gas Supply Module

The Oil and Gas Supply Module represents domestic crude oil and natural gas supply within an integrated framework that captures the interrelationships among the various sources of supply: onshore, offshore, and Alaska by both conventional and unconventional techniques, including natural gas recovery from coalbeds and low-permeability formations of sandstone and shale. The framework analyzes cash flow and profitability to compute investment and drilling for each of the supply sources, based on the prices for crude oil and natural gas, the domestic recoverable resource base, and the state of technology. Oil and natural gas production activities are modeled for 12 supply regions, including 6 onshore, 3 offshore and 3 Alaskan regions.

Domestic crude oil production quantities, along with crude oil imports, are used as inputs to the PMM in NEMS for conversion and blending into refined petroleum products. Supply curves for natural gas are used as inputs to the Natural Gas Transmission and Distribution Module for determining natural gas prices and quantities.

## Natural Gas Transmission and Distribution Module

The Natural Gas Transmission and Distribution Module represents the transmission, distribution, and pricing of natural gas, subject to end-use demand for natural gas and the availability of domestic natural gas and natural gas traded on the international market. The module tracks the flows of natural gas and determines the associated capacity expansion requirements in an aggregate pipeline network, connecting the domestic and foreign supply regions with 12 U.S. demand regions. The flow of natural gas is determined for both a peak and off-peak period in the year. Key components of pipeline and distributor tariffs are included in separate pricing algorithms. The module also represents foreign sources of natural gas, including pipeline imports and exports to Canada and Mexico, and imports and exports of liquefied natural gas (LNG).

## Petroleum Market Module

The Petroleum Market Module (PMM) projects prices of petroleum products, crude oil and product import activity, and domestic refinery operations (including fuel consumption), subject to the demand for petroleum products, the availability and price of imported petroleum, and the domestic production of crude oil, natural gas liquids, and biofuels (ethanol, biodiesel, and biomass-to-liquids [BTL]). The module represents refining activities in the five PADDs, as well as a less detailed representation of refining activities in the rest of the world. It explicitly models the requirements of EISA2007 and CAAA90 and the costs of automotive fuels, such as conventional and reformulated gasoline, and includes the production of biofuels for blending in gasoline and diesel.

The PMM in NEMS represents regulations that limit the sulfur content of all nonroad and locomotive/marine diesel to 15 parts per million (ppm) by mid-2012. The module also reflects the renewable fuels standard (RFS) in EISA2007 that requires the use of 36 billion gallons per year of biofuels by 2022 if achievable, with corn ethanol credits limited to 15 billion gallons per year [4] Demand growth and regulatory changes necessitate capacity expansion for refinery processing units. U.S. end-use prices are based on the marginal costs of production, plus markups representing the costs of product marketing, importing, transportation, and distribution, as well as applicable State and Federal taxes [5]. Refinery capacity expansion at existing sites is permitted in each of the five refining regions modeled.

Fuel ethanol and biodiesel are included in the PMM, because they are commonly blended into petroleum products. The module allows ethanol blending into gasoline at 10 percent or less by volume (E10) and up to

85 percent by volume (E85) for use in flex-fueled vehicles. Although E15 is currently being considered for certification as a viable motor fuel by the EPA, its use in light duty vehicles has not been approved and thus is not modeled in the *AEO2010*. In addition, the level of allowable non-E85 ethanol blending in California has been raised from 5.7 percent to 10 percent in recent regulatory changes [6] that have set a framework for E10 emissions standards starting in year 2010.

Ethanol is produced primarily in the Midwest from corn or other starchy crops, and in the future it may be produced from cellulosic material, such as switchgrass , poplar, and crop residues. Biodiesel (diesel-like fuel made in a transesterification process) is produced from seed oil, imported palm oil, animal fats, or yellow grease (primarily, recycled cooking oil). Renewable or "green" diesel is also modeled as a blending component in petroleum diesel. Unlike the more common biodiesel, renewable diesel is made by hydrogenation of vegetable oils or tallow and is completely fungible with petroleum diesel. Imports and limited exports of these biofuels are modeled in the PMM.

Fuels produced by gasification and Fischer-Tropsch synthesis are also modeled in the PMM, based on their economics relative to competing feedstocks and products. The three processes modeled are coal-to-liquids (CTL), gas-to-liquids (GTL), and biomass-to-liquids (BTL). CTL facilities are likely to be built at locations close to coal supplies and water sources, where liquid products and surplus electricity could also be distributed to nearby demand regions. In addition, a hybrid coal-biomass-to-liquids (CBTL) process was implemented in the *AEO2010*, resulting in a production level of 380 million gallons per year (MMGY) (the biomass-to-liquid part) by 2023. GTL facilities may be built in Alaska, but they would compete with the Alaska Natural Gas Transportation System for available natural gas resources. BTL facilities are likely to be built where there are large supplies of biomass, such as crop residues and forestry waste. Because the BTL process uses cellulosic feedstocks, it is also modeled as a choice to meet the EISA2007 cellulosic biofuels requirement.

### Coal Market Module

The Coal Market Module (CMM) simulates mining, transportation, and pricing of coal, subject to end-use demand for coal differentiated by heat and sulfur content. U.S. coal production is represented in the CMM by 40 separate supply curves—differentiated by region, mine type, coal rank, and sulfur content. The coal supply curves include a response to capacity utilization of mines, mining capacity, labor productivity, and factor input costs (mining equipment, mining labor, and fuel requirements). Projections of U.S. coal distribution are determined by minimizing the cost of coal supplied, given coal demands by region and sector, environmental restrictions, and accounting for minemouth prices, transportation costs, and coal supply contracts. Over the projection horizon, coal transportation costs in the CMM vary in response to changes in the cost of rail investments.

The CMM produces projections of U.S. steam and metallurgical coal exports and imports in the context of world coal trade, determining the pattern of world coal trade flows that minimizes the production and transportation costs of meeting a specified set of regional world coal import demands, subject to constraints on export capacities and trade flows. The international coal market component of the module computes trade in 3 types of coal for 17 export regions and 20 import regions. U.S. coal production and distribution are computed for 14 supply regions and 16 demand regions.

# Cases for the *Annual Energy Outlook 2010*

In preparing projections for the *AEO2010*, EIA evaluated a wide range of trends and issues that could have major implications for U.S. energy markets between now and 2035. Besides the reference case, the *AEO2010* presents detailed results for four alternative cases that differ from each other due to fundamental assumptions concerning the domestic economy and world oil market conditions. These alternative cases include the following:

- **Economic Growth**  - In the *reference case*, real GDP grows at an average annual rate of 2.4 percent from 2008 through 2035, supported by a 1.5 percent per year growth in productivity in nonfarm business and a 0.6 percent per year growth in nonfarm employment. In the *high economic growth case,* real GDP is projected to increase by 3.0 percent per year, with productivity and nonfarm employment growing at 2.4 percent and 1.2 percent per year, respectively. In the *low economic*

*growth case*, the average annual growth in GDP, productivity and nonfarm employment is 1.8, 1.5 and 0.5 percent, respectively.

- **Price Cases** – For purposes of the *AEO2010*, the world oil price is defined by the price of light, low-sulfur crude oil delivered in Cushing, Oklahoma.  In the reference case, world oil prices increase quickly after the recession ends, reaching $95 per barrel in 2015 ($105 per barrel in nominal terms), as growth in world oil demand rebounds and investment in production capacity lags this expansion in demand.  After 2015, real prices rise gradually as demand continues to grow and higher cost supplies are brought to market.  In 2035, the average real price of crude oil is $133 per barrel in 2008 dollars, or about $224 per barrel in nominal dollars. The reference case represents EIA's current judgment regarding exploration and development costs and accessibility of oil resources outside the United States.  It also assumes that OPEC producers will choose to maintain their share of the market and will schedule investments in incremental production capacity so that OPEC's conventional oil production will represent about 40 percent of the world's total liquids production.  The low and high price cases define a wide range of potential price paths, which in 2035 span from about $50 to over $200 per barrel in real dollars. These cases reflect differences in the assumptions about access to energy resources, production costs, and changes in OPEC behavior. The low price case assumes that OPEC countries will increase their conventional oil production to obtain a 47 percent share of total world liquids production, and that oil resources outside the U.S. will be more accessible and/or less costly to produce (as a result of technology advances, more attractive fiscal regimes, or both) than in the Reference case.  With these assumptions, conventional oil production outside the U.S. is higher in the Low Oil Price case than in the Reference case.  The high price case assumes that OPEC countries will reduce their production from the current rate, sacrificing market share as global liquids production increases, and that oil resources outside the United States will be less accessible and/or more costly to produce than assumed in the Reference case.

In addition to these four cases, and the reference case, 31 additional alternative cases presented in Table 1.1 that explore the impact of changing key assumptions on individual sectors.

Many of the side cases were designed to examine the impacts of varying key assumptions for individual modules or a subset of the NEMS modules, and thus the full market consequences, such as the consumption or price impacts, are not captured. In a fully integrated run, the impacts would tend to narrow the range of the differences from the reference case. For example, the best available technology side case in the residential demand assumes that all future equipment purchases are made from a selection of the most efficient technologies available in a particular year. In a fully integrated NEMS run, the lower resulting fuel consumption would have the effect of lowering the market prices of those fuels with the concomitant impact of increasing economic growth, thus stimulating some additional consumption. The results of single model or partially integrated cases should be considered the maximum range of the impacts that could occur with the assumptions defined for the case.

**Table 1.1.  Summary of *AEO2010* Cases**

| Case name | Description | Integration mode |
|---|---|---|
| Reference | Baseline economic growth (2.4 percent per year from 2008 through 2035), world oil price, and technology assumptions. Complete projection tables in Appendix A. | Fully integrated |
| Low Economic Growth | Real GDP grows at an average annual rate of 1.8 percent from 2008 to 2035. Other energy market assumptions are the same as in the Reference case. Partial projection tables in Appendix B. | Fully integrated |
| High Economic Growth | Real GDP grows at an average annual rate of 3.0 percent from 2008 to 2035. Other energy market assumptions are the same as in the Reference case. Partial projection tables in Appendix B. | Fully integrated |
| Low Oil Price | More optimistic assumptions for economic access to non-OPEC resources and OPEC behavior than in the Reference case. World light, sweet crude oil prices are $51 per barrel in 2035, compared with $133 per barrel in the Reference case (2008 dollars). Other assumptions are the same as in the Reference case. Partial projection tables in Appendix C. | Fully integrated |
| High Oil Price | More pessimistic assumptions for economic access to non-OPEC resources and OPEC behavior than in the Reference case. World light, sweet crude oil prices are about $210 per barrel (2008 dollars) in 2035. Other assumptions are the same as in the Reference case. Partial projection tables in Appendix C. | Fully integrated |
| Extended Policy | Begins with the Reference case and selectively extends PTC, ITC, and other energy efficiency tax credit policies with sunset provisions, and promulgates new efficiency standards as they satisfy the EERE consumer-related cost effectiveness criteria. Introduces new CAFE and tailpipe emissions proposal.  Partial projection tables in Appendix D. | Fully integrated |
| No Sunset | Begins with the Reference case and extends all energy policies and legislation with sunset provisions, except those requiring additional funding (e.g., loan guarantee programs).  Also extends the RFS requirement to the 36 billion by 2026 and continues increasing proportional to transport demand thereafter. Partial projection tables in Appendix D. | Fully integrated |
| Residential: 2009 Technology | Future equipment purchases based on equipment available in 2009. Existing building shell efficiencies fixed at 2009 levels. Partial projection tables in Appendix D. | With commercial |
| Residential: High Technology | Earlier availability, lower costs, and higher efficiencies assumed for more advanced equipment. Building shell efficiencies for new construction meet ENERGY STAR requirements after 2016. Consumers evaluate efficiency investments at 7 percent real. Partial projection tables in Appendix D. | With commercial |
| Residential: Best Available Technology | Future equipment purchases and new building shells based on most efficient technologies available by fuel. Building shell efficiencies for new construction meet the criteria for most efficient components after 2009. Partial projection tables in Appendix D. | With commercial |
| Commercial: 2009 Technology | Future equipment purchases based on equipment available in 2009. Building shell efficiencies fixed at 2009 levels. Partial projection tables in Appendix D. | With residential |
| Commercial: HighTechnology | Earlier availability, lower costs, and higher efficiencies for more advanced equipment. Energy efficiency investments evaluated at 7 percent real. Building shell efficiencies for new and existing buildings increase by 17.4 and 7.5 percent, respectively, from 2003 values by 2035. Partial projection tables in Appendix D. | With residential |
| Commercial: Best Available Technology | Future equipment purchases based on most efficient technologies available by fuel. Building shell efficiencies for new and existing buildings increase by 20.8 and 9.0 percent, respectively, from 2003 values by 2035. Partial projection tables in Appendix D. | With residential |
| Industrial: 2010 Technology | Efficiency of plant and equipment fixed at 2010 levels. Partial projection tables in Appendix D. | Standalone |
| Industrial: High Technology | Earlier availability, lower costs, and higher efficiencies for more advanced equipment. Partial projection tables in Appendix D. | Standalone |

**Table 1.1. Summary of *AEO2010* Cases (cont.)**

| Case name | Description | Integration mode |
|---|---|---|
| Transportation: Low Technology | Advanced technologies are more costly and less efficient than in the Reference case. Partial projection tables in Appendix D. | Standalone |
| Transportation: High Technology | Advanced technologies are less costly and more efficient than in the Reference case. Partial projection tables in Appendix D. | Standalone |
| Transportation: Reference Case 2019 Phaseout With Base Market Potential | Modified Reference case incorporating lower incremental costs for all classes of heavy-duty natural gas vehicles and tax incentives for natural gas refueling stations and natural gas fuel beginning in 2011 and phased out by 2019. Partial projection tables in Appendix D. | Fully Integrated |
| Transportation: Reference Case 2027 Phaseout With Expanded Market Potential | Modified Reference case incorporating lower incremental costs for all classes of heavy-duty natural gas vehicles and tax incentives for natural gas refueling stations and natural gas fuel beginning in 2011 and phased out by 2027, with assumed increases in 2035 market shares for all classes of heavy-duty natural gas vehicles. Partial projection tables in Appendix D. | Fully integrated |
| Transportation: Low Oil Price Case 2019 Phaseout With Base Market Potential | Modified Low Oil Price case incorporating lower incremental costs for all classes of heavy-duty natural gas vehicles and tax incentives for natural gas refueling stations and natural gas fuel beginning in 2011 and phased out by 2019. Partial projection tables in Appendix D. | Fully integrated |
| Transportation: Low Oil Price Case 2027 Phaseout With Expanded Market Potential | Modified Low Oil Price case incorporating lower incremental costs for all classes of heavy-duty natural gas vehicles and tax incentives for natural gas refueling stations and natural gas fuel beginning in 2011 and phased out by 2027, with assumed increases in 2035 market shares for all classes of heavy-duty natural gas vehicles. Partial projection tables in Appendix D. | Fully Integrated |
| Electricity: Low Fossil Technology Cost | Capital and operating costs for all new fossil-fired generating technologies start 10 percent below the Reference case and decline to 25 percent below the Reference case in 2035. Partial projection tables in Appendix D. | Fully Integrated |
| Electricity: High Fossil Technology Cost | Costs for new advanced fossil-fired generating technologies do not improve over time due to learning from 2010. Partial projection tables in Appendix D. | Fully Integrated |
| Electricity: Low Nuclear Cost | Capital and operating costs for new nuclear capacity start 10 percent lower than in the Reference case and fall to 25 percent lower in 2035. Partial projection tables in Appendix D. | Fully Integrated |
| Electricity: High Nuclear Costs | Costs for new nuclear technology do not improve due to learning from 2010 levels in the Reference case. Partial projection tables in Appendix D. | Fully Integrated |
| Electricity: Nuclear 60 Year Life | All existing nuclear plants are retired after 60 years of operation.  Partial projection tables in Appendix D | Fully Integrated |
| Renewable Fuels: Low Renewable Technology Cost | Levelized cost of energy for nonhydropower renewable generating technologies start 10 percent lower in 2010 and decline by 25 percent in 2035 from Reference case values. Partial projection tables in Appendix D. | Fully integrated |
| Renewable Fuels: High Renewable Technology Cost | New renewable generating technologies do not improve through learning over time from 2010. Partial projection tables in Appendix D. | Fully integrated |
| Oil and Gas: Slow Technology | The improvements in exploration and development costs, production rates, and success rates due to technological advancement are reduced 50 percent to reflect slower improvement than in the Reference case. Partial projection tables in Appendix D. | Fully integrated |

**Table 1.1. Summary of *AEO2010* Cases (cont.)**

| Case name | Description | Integration mode |
|---|---|---|
| Oil and Gas: Rapid Technology | The improvements in exploration and development costs, production rates, and success rates due to technological advancement are increased 50 percent to reflect more rapid improvement than in the Reference case. Partial projection tables in Appendix D. | Fully integrated |
| Oil and Gas: No Low Permeability Gas Drilling | No drilling is permitted in onshore, lower 48 low permeability natural gas reservoirs after 2009 (i.e. no new tight gas or shale gas drilling). Partial projection tables in Appendix D. | Fully Integrated |
| Oil and Gas: No Shale Gas Drilling | No drilling is permitted in onshore, lower 48 shale gas reservoirs after 2009 (i.e. no new shale gas drilling). Partial projection tables in Appendix D | Fully Integrated |
| Oil and Gas: High Shale Resource | Shale gas resources in the onshore, lower 48 are assumed to be higher than in the Reference case.  Partial projection tables in Appendix D | Fully Integratefd |
| Oil and Gas: High LNG Supply | LNG imports into North America are set exogenously to a factor times the levels projected in the Reference case from 2010 forward. The factor starts at 1.0 in 2010 and increases linearly to 5.0 in 2035. Partial projection tables in Appendix D. | Fully integrated |
| Coal: Low Coal Cost | Productivity growth rates for coal mining are higher than in the Reference case, and coal mining wages, mine equipment, and coal transportation rates are lower. Partial projection tables in Appendix D. | Fully Integrated |
| Coal: High Coal Cost | Productivity growth rates for coal mining are lower than in the Reference case, and coal mining wages, mine equipment, and coal transportation rates are higher. Partial projection tables in Appendix D. | Fully integrated |
| Integrated Low Technology | Combination of the Residential, Commercial, and Industrial 2010 Technology cases and the Electricity High Fossil Technology Cost, High Renewable Technology Cost, and High Nuclear Cost cases. Partial projection tables in Appendix D. | Fully integrated |
| Integrated High Technology | Combination of the Residential, Commercial, Industrial, and Transportation High Technology cases and the Electricity Low Fossil Technology Cost, Low Renewable Technology Cost, and Low Nuclear Cost cases. Partial projection tables in Appendix D. | Fully integrated |
| No GHG Concerns | No greenhouse gas emissions reduction policy is enacted, and market investment decisions are not altered in anticipation of such a policy. | Fully Integrated |

# Carbon Dioxide Emissions

Carbon dioxide emissions from energy use are dependent on the carbon content of the fossil fuel, the fraction of the fuel consumed in combustion, and the consumption of that fuel. The product of the carbon content at full combustion and the combustion fraction yields an adjusted carbon emission factor for each fossil fuel. The emissions factors are expressed in millions of metric tons carbon dioxide emitted per quadrillion Btu of energy use, or equivalently, in kilograms carbon dioxide per million Btu. The adjusted emissions factors are multiplied by the energy consumption of the fossil fuel to arrive at the carbon dioxide emissions projections.

For fuel uses of energy, the combustion fractions are assumed to be 1.00 in keeping with international conventions. Previously, a small fraction of the carbon content of the fuel was assumed to remain unoxidized. The carbon in nonfuel use of energy, such as for asphalt and petrochemical feedstocks, is assumed to be sequestered in the product and not released to the atmosphere. For energy categories that are mixes of fuel and nonfuel uses, the combustion fractions are based on the proportion of fuel use. Any carbon dioxide emitted by biogenic renewable sources, such as biomass and alcohols, is considered balanced by the carbon dioxide sequestration that occurred in its creation. Therefore, following convention, net emissions of carbon dioxide from biogenic renewable sources are taken as zero, and no emission coefficient is reported. In calculating carbon dioxide emissions for motor gasoline, the direct emissions from renewable blending stock (ethanol) is omitted. Similarly, direct emissions from biodiesel are omitted from reported carbon dioxide emissions. Table 1.2 presents the assumed carbon dioxide coefficients at full combustion, the combustion fractions, and the adjusted carbon dioxide emission factors used for *AEO2009*.

## Table 1.2. Carbon Dioxide Emission Factors
### (million metric tons carbon dioxide equivalent per quadrillion Btu)

| Fuel Type | Carbon Dioxide Coefficient at Full Combustion | Combustion Fraction | Adjusted Emissions Factor |
|---|---|---|---|
| **Petroleum** | | | |
| Motor Gasoline (net of ethanol) | 70.88 | 1.000 | 70.88 |
| Liquefied Petroleum Gas | | | |
| Used as Fuel | 63.01 | 1.000 | 63.01 |
| Used as Feedstock | 61.47 | 0.200 | 12.29 |
| Jet Fuel | 70.88 | 1.000 | 70.88 |
| Distillate Fuel (net of biodiesel) | 73.15 | 1.000 | 73.15 |
| Residual Fuel | 78.80 | 1.000 | 78.80 |
| Asphalt and Road Oil | 75.61 | 0.000 | 0.00 |
| Lubricants | 74.21 | 0.500 | 37.11 |
| Petrochemical Feedstocks | 69.85 | 0.392 | 27.40 |
| Kerosene | 72.31 | 1.000 | 72.31 |
| Petroleum Coke | 102.12 | 0.775 | 79.15 |
| Petroleum Still Gas | 64.20 | 1.000 | 64.20 |
| Other Industrial | 74.54 | 1.000 | 74.54 |
| **Coal** | | | |
| Residential and Commercial | 95.35 | 1.000 | 95.35 |
| Metallurgical | 93.71 | 1.000 | 93.71 |
| Coke | 114.14 | 1.000 | 114.14 |
| Industrial Other | 93.98 | 1.000 | 93.98 |
| Electric Utility[1] | 94.70 | 1.000 | 94.70 |
| **Natural Gas** | | | |
| Used as Fuel | 53.06 | 1.000 | 53.06 |
| Used as Feedstocks | 53.06 | 0.503 | 26.67 |

[1]Emission factors for coal used for electricity generation are specified by coal supply region and types of coal, so the average carbon dioxide contents for coal varies throughout the projection. The 2008 average is 94.70.

Source: Energy Information Administration, *Emissions of Greenhouse Gases in the United States 2008, DOE/EIA-0573(2008),* (Washington, DC, December 2009).

# Notes and Sources

[1]  Energy Information Administration, *Annual Energy Outlook 2009* (*AEO2009*), DOE/EIA-0383(2009), (Washington, DC, February 2009).

[2] NEMS documentation reports are available on the EIA Homepage (http://tonto.eia.doe.gov/reports/reports_kindD.asp?type=model documentation).

[3]  On December 23, 2008, after the November 5 cutoff date for inclusion of changes in Federal and State laws and regulations in *AEO2009*, the United States Court of Appeals for the District of  Columbia issued a new ruling that remanded but did not vacate CAIR, noting that "Allowing CAIR to remain in effect until it is replaced by a rule consistent with our opinion would at least temporarily preserve the environmental values." Source:  United States Court of Appeals for the District of Columbia Circuit, No. 05-1244, web site www.epa.gov/airmarkets/progsregs/cair/docs/CAIRRemandOrder.pdf.  This change allows the EPA to modify CAIR to address the objections raised by the Court in its earlier decision while leaving the rule in place.  The change is not reflected in *AEO2009*.

[4] Corn ethanol production may exceed 15 billion gallons if it is economic to do so without the RFS credit.

[5] For gasoline blended with ethanol, the tax credit of 51 cents (nominal) per gallon of ethanol is assumed to be available for 2008; however, it is reduced to 45 cents starting in 2009 (the year after annual U.S. ethanol consumption surpasses 7.5 billion gallons), as mandated by the Food, Conservation, and Energy Act of 2008 (the Farm Bill), and it is set to expire after 2010. In addition, modeling updates include the Farm Bill's mandated extension of the ethanol import tariff, at 54 cents per gallon, to December 31, 2010. Finally, again in accordance with the Farm Bill, a new cellulosic ethanol producer's tax credit of $1.01 per gallon, valid through 2012, is implemented in the model; however, it is reduced by the amount of the blender's tax credit amount. Thus, in 2009 and 2010, the cellulosic ethanol producer's tax credit is modeled as $1.01 - $0.45 = $0.56 per gallon, and in 2011 and 2012 it is set at $1.01 per gallon

[6] California Environmental Protection Agency, Air Resources Board, "Phase 3 California Reformulated Gasoline Regulations," web site www.arb.ca.gov/regact/2007/carfg07/carfg07.htm.

# Macroeconomic Activity Module

The Macroeconomic Activity Module (MAM) represents the interaction between the U.S. economy as a whole and energy markets. The rate of growth of the economy, measured by the growth in gross domestic product (GDP) is a key determinant of the growth in demand for energy. Associated economic factors, such as interest rates and disposable income, strongly influence various elements of the supply and demand for energy.  At the same time, reactions to energy markets by the aggregate economy, such as a slowdown in economic growth resulting from increasing energy prices, are also reflected in this module.  A detailed description of the MAM is provided in the EIA publication, *Model Documentation Report: Macroeconomic Activity Module (MAM) of the National Energy Modeling System*, DOE/EIA-M065(2009), (Washington, DC, January  2009).

## Key Assumptions

The output of the U.S. economy, measured by GDP, is expected to increase by 2.4 percent between 2008 and 2035 in the reference case.  Two key factors help explain the growth in GDP:  the growth rate of nonfarm employment and the rate of productivity change associated with employment. As Table 2.1 indicates, real GDP growth slows during the first three years of the forecast, reflecting the current economic recession, shows higher growth for the first ten years as the economy recovers, and then returns to its long-run growth path.  In the reference case, real GDP declines by 0.9 percent for the first two years, and then returns to 3.0 percent growth for the recovery period and 2.5 percent growth for the final fifteen years.  Both the high and low macroeconomic growth cases show similar patterns of early lower growth, recovery and settling back into their respective long-run growth trends.  In the near term from 2008 through 2010, the growth in nonfarm employment is low at -2.2 percent compared with 2.4 percent in the second half of the 1990s, while the economy is expected to experience productivity growth of 2.0 percent.  Over the projection period, nonfarm employment is expected to grow by 0.8 percent per year.  Nonfarm employment, a measure of demand for nonfarm labor, is generally more volatile than the labor force, a measure of labor supply. The latter depends upon the projection of population and labor force participation rate. The Census Bureau's middle  series population projection is used as a basis for population growth for the AEO2010. Total population is expected to grow by 0.9 percent per year between 2008 and 2035, and the share of population over 65 is expected to increase over time. However, the share of the labor force in the population over 65 is also projected to increase in the projection period.

**Table 2.1.  Growth in Gross Domestic Product, Nonfarm Employmemt and Productivity**
(Percent per Year)

| Assumptions | 2008-2010 | 2010-2020 | 2020-2035 | 2008-2035 |
|---|---|---|---|---|
| **Real GDP (Billion Chain-Weighted $2000)** | | | | |
| High Growth | -0.9% | 3.8% | 3.0% | 3.0% |
| Reference | -0.9% | 3.0% | 2.5% | 2.4% |
| Low Growth | -0.9% | 2.3% | 1.8% | 1.8% |
| **Nonfarm Employment** | | | | |
| High Growth | -2.2% | 2.1% | 1.1% | 1.2% |
| Reference | -2.2% | 1.4% | 0.8% | 0.8% |
| Low Growth | -2.2% | 0.7% | 0.6% | 0.4% |
| **Productivity** | | | | |
| High Growth | 2.0% | 2.3% | 2.5% | 2.4% |
| Reference | 2.0% | 1.8% | 2.1% | 2.0% |
| Low Growth | 2.0% | 1.3% | 1.6% | 1.5% |

Source:  Energy Information Administration, *AEO2010 National Energy Modeling System runs: AEO2010.d111809a; LM2010.d011110a; and hm2010.d112509a.*

To achieve the reference case's long-run 2.4 percent economic growth, there is an anticipated steady growth in labor productivity.   The improvement in labor productivity  reflects the positive effects of a growing capital stock as well as technological change over time.  Nonfarm labor productivity is expected to remain between 1.9 and 2.0 percent for the remainder of the projection period from 2008 through 2035.  Business fixed investment as a share of nominal GDP is expected to grow over the last 10 years of  the projection.  The resulting growth in the capital stock and the technology base of that capital stock helps to sustain productivity growth of 2.0 percent from the 2008 to 2035.

To reflect the uncertainty in projection of economic growth, the *AEO2010*  uses high and low economic growth cases along with the reference case to project the possible impacts on energy markets. The high economic growth case incorporates higher population, labor force and productivity growth rates than the reference case.  Due to the higher productivity gains, inflation and interest rates are lower compared to the reference case.  Investment, disposable income, and industrial production are increased.  Economic output is projected to increase by 3.0 percent per year between 2008 and 2035.  The low economic growth case assumes lower population, labor force, and productivity gains, with resulting higher prices and interest rates and lower industrial output growth.  In the low economic growth case, economic output is expected to increase by 1.8 percent per year over the projection horizon.

# International Energy Module

The NEMS International Energy Module (IEM) simulates the interaction between U.S. and global petroleum markets. It uses assumptions of economic growth and expectations of future U.S. and world crude-like liquids production and consumption, to estimate the effects of changes in U.S. liquid fuels markets on the international petroleum markets. For each year of the forecast, the NEMS IEM computes world oil prices, provides a supply curve of world crude-like liquids, generates a worldwide oil supply/demand balance with regional detail,, and computes quantities of crude oil and light and heavy petroleum products imported into the United States by export region.

Changes in the world oil price (WOP), which is defined as the price of light, low sulfur crude oil delivered to Cushing, Oklahoma (Petroleum Allocation Defense District 2) are computed in response to:

    1. The difference between projected U.S. total crude-like liquids production and the expected U.S. total crude-like liquids production at the current WOP (estimated using the current WOP and the exogenous U.S. total crude-like liquids supply curve for each year).

and

    2. The difference between projected U.S. total crude-like liquids consumption and the expected U.S. total crude-like liquids consumption at the current WOP (estimated using the current WOP and the exogenous U.S. total crude-like liquids demand curve).

## Key Assumptions

The level of oil production by countries in the Organization of Petroleum Exporting Countries (OPEC) is a key factor influencing the world oil price projections incorporated into AEO2010. Non-OPEC production, worldwide regional economic growth rates and the associated regional demand for oil are additional factors affecting the world oil price.

The world oil price is defined as the annual average price of low-sulfur, light crude oil delivered in PADD2. For the low, reference, and high oil price cases, the world oil price reaches $51, $133 and $210 per barrel in 2035, respectively, in 2008 dollars. The reference case assumes that OPEC producers will continue to demonstrate a disciplined production approach. The low oil price case reflects a market where all oil production becomes more competitive and plentiful. The high oil price case could result from a more cohesive and market-assertive OPEC that reduces overall production volumes while resource rich non-OPEC producers restrict economic access to their oil reserves. The three price scenarios are shown in Figure 2.

OPEC oil production in the reference case is assumed to increase throughout the projection (Figure 3), at a rate that enables the organization to maintain an approximately constant market share over the projection period. OPEC is assumed to be an important source of additional production because its member nations hold a major portion of the world's total reserves—exceeding 940 billion barrels, about 70 percent of the world's estimated total, at the beginning of 2009.[1] Despite investment from foreign sources, Iraq's oil production is not assumed to maintain steady growth until after 2015 as infrastructure limitations as well as security and legislative issues are assumed to slow development for the next five years.

Non-U.S., non-OPEC oil production projections in the AEO2010 are developed in two-stages. Projections of liquids production before 2015 are based largely on a project-by-project assessment of major fields including volumes and expected schedules, with consideration given to the decline rates of active projects, planned exploration and development activity, and country-specific geopolitical situations and fiscal regimes. Incremental production estimates from existing and new fields after 2015 are estimated based on country specific consideration of economics and ultimate technical recoverable resource estimates. The non-OPEC production path for the reference case is shown in Figure 4.

**Figure 2. World Oil Prices in Three Cases, 1995-2035**
2008 Dollars per Barrel
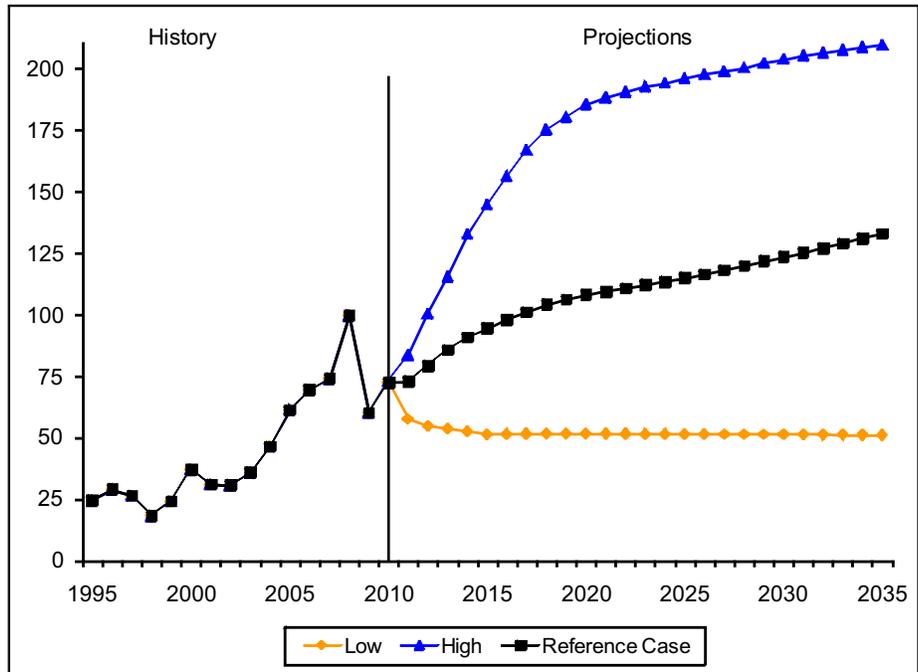


Source: AEO2010 National Energy Modeling System runs AEO2010R.D111809A, LP2010.D011910A, and HP2010.D011910A.

**Figure 3. OPEC Total Liquids Production in the Reference Case, 1995-2035**
Millions Barrels per Day
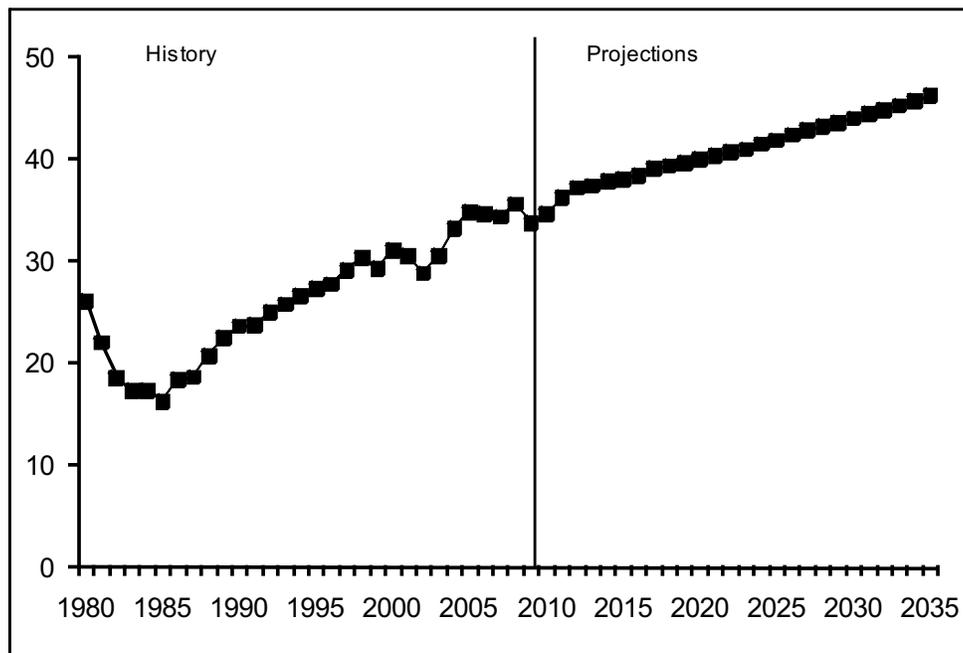


OPEC = Organization of Petroleum Exporting Countries.

Source: Energy Information Administration. AEO2010 National Energy Modeling System run AEO2010R.D111809A.

**Figure 4. Non-OPEC Total Liquids Production in the Reference Case, 1995-2030**
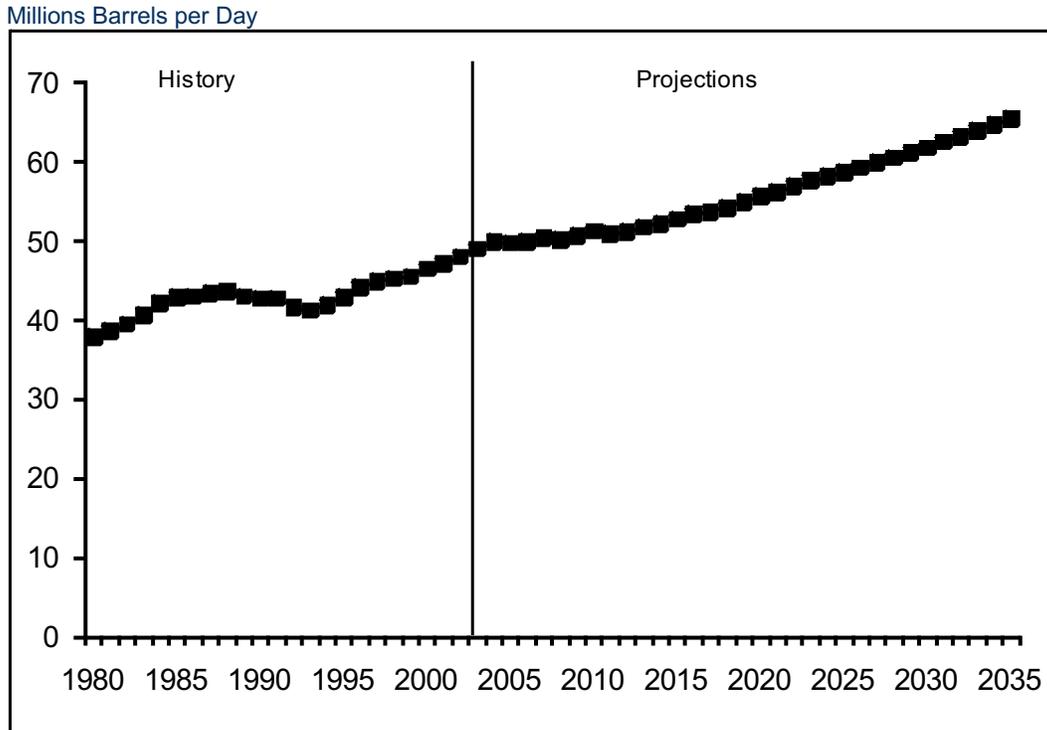
Millions Barrels per Day



OPEC = Organization of Petroleum Exporting Countries.

Source: Energy Information Administration. AEO2010 National Energy Modeling System run AEO2010R.D111809A.

The non-U.S. oil production projections in the AEO2010 are limited by country-level assumptions regarding technical recoverable oil resources. Inputs to these resource estimates include the USGS World Petroleum Assessment of 2000 and oil reserves published in the Oil and Gas Journal by PennWell Publishing Company, a summary of which is shown in Table 3.1.

The reference case growth rates for GDP for various regions in the world are shown in Table 3.2. Except for the United States, the GDP growth rate assumptions for non U.S. country/regions are taken from HIS Global Insight, Inc., Global detailed forecast (November 23, 2009).

The values for growth in total liquids demand in the International Energy Module, which depend upon the oil price levels as well as GDP growth rates, are shown in Table 3.3 for the reference case by regions.

**Table 3.1. Worldwide Oil Reserves as of January 1, 2009**
(Billion Barrels)

| Region | Proved Oil Reserves |
|---|---|
| Western Hemisphere | 332.6 |
| Western‘Europe | 12.7 |
| Asia-Pacific | 34.0 |
| Eastern Europe and F.S.U. | 99.9 |
| Middle East | 746.0 |
| Africa | 117.1 |
| Total World | 1342.2 |
| Total OPEC | 940.0 |

Source: PennWell Corporation, Oil and Gas Journal, Vol 106. 48 (Dec 22, 2008).

**Table 3.2. Average Annual Real Gross Domestic Product Rates, 2007-2035 (2005 Purchasing PowerParity Weights and Prices)**

| Region | Average Annual Percentage Change |
| --- | --- |
| OECD | 2.0 |
| OECD North America | 2.4 |
| OECD Europe | 1.7 |
| OECD Asia | 1.3 |
| Non-OECD | 4.4 |
| Non-OECD Europe and Eurasia | 2.5 |
| Non-OECD Asia | 5.1 |
| Middle East | 4.0 |
| Africa | 3.9 |
| Central and South America | 3.4 |
| Total World | 3.2 |

Source: For the U.S., Energy Informatin Administration, National Energy Modeling System run AEO2010r.D111809A; for other countries, Global Insight, Inc., Global Detailed forecast (November 23 2009)

**Table 3.3. Average Annual Growth Rates for Total Liquids Demand in the Reference Case, 2007-2035** (Percent per Year)

| Region | Oil Demand Growth |
| --- | --- |
| OECD | 0.09% |
| OECD North America | 0.31% |
| OECD Europe | -0.17% |
| OECD Asia | -0.11% |
| Non-OECD | 1.84% |
| Non-OECD Europe and Eurasia | 0.16% |
| Non-OECD Asia | 2.47% |
| Middle East | 2.08% |
| Africa | 0.83% |
| Central and South America | 1.15% |
| Total World | 0.94% |

Source:  Energy Information Administration, *AEO2010* National Energy Modeling System run: AEO2010r.D111809A;  and IEO2010 World Energy Projection System Plus (2010).

# Notes and Sources

[1] PennWell Corporation, Oil and Gas Journal, Vol. 106.48 (December 22, 2008).

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# Residential Demand Module

The NEMS Residential Demand Module projects future residential sector energy requirements based on projections of the number of households and the stock, efficiency, and intensity of use of energy-consuming equipment. The Residential Demand Module projections begin with a base year estimate of the housing stock, the types and numbers of energy-consuming appliances servicing the stock, and the "unit energy consumption" by appliance (or UEC—in million Btu per household per year). The projection process adds new housing units to the stock, determines the equipment installed in new units, retires existing housing units, and retires and replaces appliances. The primary exogenous drivers for the module are housing starts by type (single-family, multifamily and mobile homes) and Census Division and prices for each energy source for each of the nine Census Divisions (see Figure 5). The Residential Demand Module also requires projections of available equipment and their installed costs over the projection horizon. Over time,

**Figure 5. United States Census Divisions**
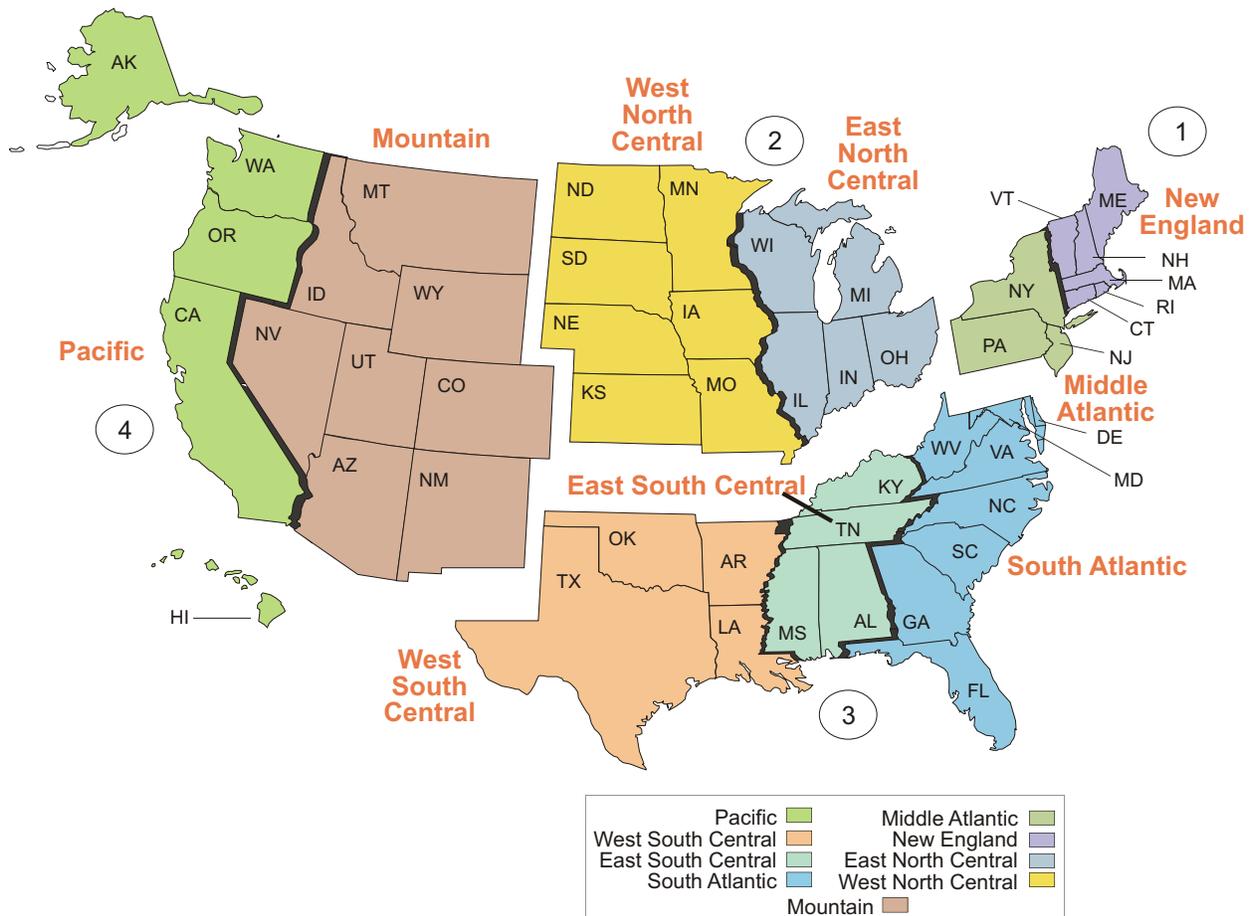


Source:Energy Information Administration,Office of Integrated Analysis and Forecasting.

equipment efficiency tends to increase because of general technological advances and also because of Federal and/or state efficiency standards. As energy prices and available equipment changes over the projection horizon, the module includes projected changes to the type and efficiency of equipment purchased as well as projected changes in the usage intensity of the equipment stock.

The end-use services for which equipment stocks are modeled include space conditioning (heating and cooling), water heating, refrigeration, freezers, dishwashers, clothes washers, lighting, furnace fans, color televisions, personal computers, cooking, clothes drying, ceiling fans, coffee makers, spas, home security systems, microwave ovens, set-top boxes, home audio equipment, rechargeable electronics, and VCR/DVDs. In addition to the major equipment-driven end-uses, the average energy consumption per household is projected for other electric and nonelectric appliances. The module's output includes number

of households, equipment stock, average equipment efficiencies, and energy consumed by service, fuel, and geographic location. The fuels represented are distillate fuel oil, liquefied petroleum gas, natural gas, kerosene, electricity, wood, geothermal, coal, and solar energy.

One of the implicit assumptions embodied in the Residential Demand Module is that, through 2035, there will be no radical changes in technology or consumer behavior. No new regulations of efficiency beyond those currently embodied in law or new government programs fostering efficiency improvements are assumed. Technologies which have not gained widespread acceptance today will generally not achieve significant penetration by 2035. Currently available technologies will evolve in both efficiency and cost. In general, at the same efficiency level, future technologies will be less expensive than those available today in real dollar terms. When choosing new or replacement technologies, consumers will behave similarly to the way they now behave. The intensity of end-uses will change moderately in response to price changes. Electric end uses will continue to expand, but at a decreasing rate. [1]

# Key Assumptions

## *Housing Stock Submodule*

An important determinant of future energy consumption is the projected number of households. Base year estimates for 2005 are derived from the Energy Information Administration's (EIA) *Residential Energy Consumption Survey* (RECS) (Table 4.1). The projection for occupied households is done separately for each Census Division. It is based on the combination of the previous year's surviving stock with projected housing starts provided by the NEMS Macroeconomic Activity Module. The housing stock submodule assumes a constant survival rate (the percentage of households which are present in the current projection year, which were also present in the preceding year) for each type of housing unit; 99.6 percent for single-family units, 99.9 percent for multifamily units, and 97.6 percent for mobile home units. Projected fuel consumption is dependent not only on the projected number of housing units, but also on the type and geographic distribution of the houses. The intensity of space heating energy use varies greatly across the various climate zones in the United States. Also, fuel prevalence varies across the country—oil (distillate) is more frequently used as a heating fuel in the New England and Middle Atlantic Census Divisions than in the rest of the country, while natural gas dominates in the Midwest. An example of differences by housing type is the more prevalent use of liquefied petroleum gas in mobile homes relative to other housing types.

**Table 4.1. 2005 Households**

| Census Division | Single-family Units | Multiple family Units | Mobile Home | Total Units |
|---|---|---|---|---|
| New England | 3,392,944 | 1,899,981 | 173,072 | 5,465,996 |
| Mid Atlantic | 10,077,231 | 4,784,686 | 254,610 | 15,116,527 |
| East North Central | 14,091,216 | 3,233,929 | 424,271 | 17,749,416 |
| West North Central | 6,107,582 | 1,406,214 | 340,759 | 7,854,555 |
| South Atlantic | 14,823,560 | 4,910,592 | 1,962,563 | 21,696,715 |
| East South Central | 5,438,660 | 729,591 | 724,503 | 6,892,754 |
| West South Central | 8,892,255 | 2,120,675 | 1,109,901 | 12,122,831 |
| Mountain | 5,680,398 | 951,482 | 922,976 | 7,554,856 |
| Pacific | 11,150,078 | 4,456,348 | 1,030,541 | 16,636,967 |
| | | | | |
| United States | 79,653,923 | 24,493,498 | 6,943,196 | 111,090,617 |

Source: U.S. Department of Energy, Energy Information Administration, *2005 Residential Energy Consumption Survey.*

## *Technology Choice Submodule*

The key inputs for the Technology Choice Submodule are fuel prices by Census Division and characteristics of available equipment (installed cost, maintenance cost, efficiency, and equipment life). Fuel prices are determined by an equilibrium process which considers energy supplies and demands and are passed to this submodule from the integrating module of NEMS. Energy price, combined with equipment UEC (which is a function of efficiency), determines the operating costs of equipment. Equipment characteristics are

exogenous to the model and are modified to reflect both Federal standards and anticipated changes in the market place. Table 4.2 lists capital cost and efficiency for selected residential appliances for the years 2007 and 2020.

**Table 4.2. Installed Cost and Efficiency Ratings of Selected Equipment**

| Equipment Type | Relative Performance[1] | 2007 Installed Cost ($2007)[2] | Efficiency[3] | 2020 Installed Cost ($2007)[2] | Efficiency[3] | Approximate Hurdle Rate |
|---|---|---|---|---|---|---|
| Electric Heat Pump | Minimum<br>Best | $4,200<br>$7,500 | 13.0<br>17.0 | $4,800<br>$7,700 | 14.0<br>0.90 | 25% |
| Natural Gas Furnace[4] | Minimum<br>Best | $1,900<br>$3,050 | 0.80<br>0.96 | $2,200<br>$2,700 | 0.90<br>0.96 | 15% |
| Room Air Conditioner | Minimum<br>Best | $310<br>$925 | 9.8<br>12.0 | $310<br>$875 | 9.8<br>12.0 | 42% |
| Central Air Conditioner[5] | Minimum<br>Best | $3,000<br>$5,700 | 13.0<br>21.0 | $3,000<br>$5,750 | 13.0<br>23.0 | 25% |
| Refrigerator (23.9 cubic ft in adjusted volume) | Minimum<br>Best | $600<br>$1050 | 510<br>417 | $600<br>$1050 | 510<br>417 | 10% |
| Electric Water Heater | Minimum<br>Best | $400<br>$1,400 | 0.90<br>2.4 | $400<br>$1,700 | 0.90<br>2.4 | 50% |
| Solar Water Heater | N/A | $3,500 | 2.0 | $4,000 | 2.0 | 30% |

[1]Minimum performance refers to the lowest efficiency equipment available. Best refers to the highest efficiency equipment available.

[2]Installed costs are given in 2007 dollars in the original source document.

[3]Efficiency measurements vary by equipment type. Electric heat pumps and central air conditioners are rated for cooling performance using the Seasonal Energy Efficiency Ratio (SEER); natural gas furnaces are based on Annual Fuel Utilization Efficiency; room air conditioners are based on Energy Efficiency Ratio (EER); refrigerators are based on kilowatt-hours per year; and water heaters are based on Energy Factor (delivered Btu divided by input Btu).

[4]Values are for Northern regions of U.S.

[5]Values are for Southern regions of U.S.

Source: Navigant Consulting, *EIA Technology Forecast Updates*, Reference Number 20070831.1September 2007.

Table 4.3 provides the cost and performance parameters for representative distributed generation technologies. The *AEO2010* model also incorporates endogenous "learning" for the residential distributed generation technologies, allowing for declining technology costs as shipments increase. For fuel cell and photovoltaic systems, learning parameter assumptions for the *AEO2010* reference case result in a 13 percent reduction in capital costs each time the number of units shipped to the buildings sectors (residential and commercial) doubles.

The Residential Demand Module projects equipment purchases based on a nested choice methodology. The first stage of the choice methodology determines the fuel and technology to be used, the second stage determines the efficiency of the selected equipment type. The equipment choices for cooling, water heating, and cooking are linked to the space heating choice for new construction. Technology and fuel choice for replacement equipment uses a nested methodology similar to that for new construction, but includes (in addition to the capital and installation costs of the equipment) explicit costs for technology switching (e.g., costs for installing gas lines if switching from electricity or oil to gas, or costs for adding ductwork if switching from electric resistance heat to central heating types). Also, for replacements, there is no linking of fuel choice for water heating and cooking as is done for new construction. Technology switching upon replacement is allowed for space heating, air conditioning, water heating, cooking and clothes drying.

Once the fuel and technology choice for a particular end use is determined, the second stage of the choice methodology determines efficiency. In any given year, there are several available prototypes of varying efficiency (minimum standard, medium low, medium high and highest efficiency). Efficiency choice is based on a functional form and coefficients which give greater or lesser importance to the installed capital cost (first cost) versus the operating cost. Generally, within a technology class, the higher the first cost, the lower the operating cost. For new construction, efficiency choices are made based on the costs of both the heating and cooling equipment and the building shell characteristics.

The parameters for the second stage efficiency choice are calibrated to the most recently available shipment data for the major residential appliances. Shipment efficiency data are obtained from industry associations which monitor shipments such as the Association of Home Appliance Manufacturers. Because of this calibration procedure, the model allows the relative importance of first cost versus operating cost to vary by

**Table 4.3. Capital Cost and Performance Parameters of Selected Residential Distributed Generation Technologies**

| Technology Type | Year of Introduction | Average Generating Capacity (kW) | Electrical Efficiency | Combined Efficiency (Elec. + Thermal) | Installed Capital Cost ($2005 per KW of Capacity)[1] | Service Life Years |
|---|---|---|---|---|---|---|
| Solar Photovoltaic | | | | | | |
| | 2007 | 3.0 | 0.16 | N/A | $8,930 | 30 |
| | 2010 | 3.5 | 0.18 | N/A | $8,467 | 30 |
| | 2015 | 4.0 | 0.20 | N/A | $7,310 | 30 |
| | 2025 | 5.0 | 0.22 | N/A | $4,997 | 30 |
| | 2035 | 5.0 | 0.25 | N/A | $3,840 | 30 |
| Fuel Cell | 2007 | 10 | 0.308 | 0.697 | $8,012 | 20 |
| | 2010 | 10 | 0.320 | 0.699 | $6,199 | 20 |
| | 2015 | 10 | 0.335 | 0.705 | $4,819 | 20 |
| | 2025 | 10 | 0.360 | 0.717 | $2,663 | 20 |
| | 2035 | 10 | 0.360 | 0.723 | $1,886 | 20 |

[1]Installed costs are given in 2005 dollars in the original source document.

Source: Solar Technology Specifications: Solar Energy Industries Association, *Our Solar Power Future - The U.S. Photovoltaic Industry Roadmap through 2030 and Beyond* (SEIA, September 2004). Fuel cells: Discovery Insights, *LLC, "Installed Costs for Small CHP Systems - Estimates and Projections"* (April 2005).

general technology and fuel type (e.g., natural gas furnace, electric heat pump, electric central air conditioner, etc.). Once the model is calibrated, it is possible to calculate (approximately) the apparent discount rates based on the relative weight given to the operating cost savings versus the weight given to the higher cost of more efficient equipment. Hurdle rates in excess of 30 percent are common in the Residential Demand Module. The prevalence of such high apparent hurdle rates by consumers has led to the notion of the "efficiency gap" that is, there are many investments that could be made that provide rates of return in excess of residential borrowing rates (10 to 20 percent for example). There are several studies which document instances of apparent high discount rates. [2] Once equipment efficiencies for a technology and fuel are determined, the installed efficiency for its entire stock is calculated.

## *Appliance Stock Submodule*

The Appliance Stock Submodule is an accounting framework which tracks the quantity and average efficiency of equipment by end use, technology, and fuel. It separately tracks equipment requirements for new construction and existing housing units. For existing units, this module calculates equipment which survives from previous years, allows certain end uses to further penetrate into the existing housing stock and calculates the total number of units required for replacement and further penetration. Air conditioning and clothes drying are the two end uses not considered to be "fully penetrated."

Once a piece of equipment enters into the stock, an accounting of its remaining life is begun. It is assumed that all appliances survive a minimum number of years after installation. A fraction of appliances are removed from the stock once they have survived for the minimum number of years. Between the minimum and maximum life expectancy, all appliances retire based on a linear decay function. For example, if an appliance has a minimum life of 5 years and a maximum life of 15 years, one tenth of the units (1 divided by 15 minus 5) are retired in each of years 6 through 15. It is further assumed that, when a house is retired from the stock, all of the equipment contained in that house retires as well; i.e., there is no secondhand market for this equipment. The assumptions concerning equipment lives are given in Table 4.4.

**Table 4.4.  Minimum and Maximum Life Expectancies of Equipment**

| Equipment | Minimum Life | Maximum Life |
|---|---|---|
| Heat Pumps | 7 | 21 |
| Central Forced-Air Furnaces | 10 | 25 |
| Hydronic Space Heaters | 20 | 30 |
| Room Air Conditioners | 8 | 16 |
| Central Air Conditioners | 7 | 21 |
| Gas Water Heaters | 4 | 14 |
| Electric Water Heaters | 5 | 22 |
| Cooking Stoves | 16 | 21 |
| Clothes Dryers | 11 | 20 |
| Refrigerators | 7 | 26 |
| Freezers | 11 | 31 |

Source:  Lawrence Berkeley Laboratory, *Baseline Data for the Residential Sector and Development of a Residential Forecasting Database*, May 1994, and analysis of RECS 2001 data.

## Fuel Consumption Submodule

Energy consumption is calculated by multiplying the vintage equipment stocks by their respective UECs. The UECs include adjustments for the average efficiency of the stock vintages, short term price elasticity of demand and "rebound" effects on usage (see discussion below), the size of new construction relative to the existing stock, people per household and shell efficiency and weather effects (space heating and cooling). The various levels of aggregated consumption (consumption by fuel, by service, etc.)  are derived from these detailed equipment-specific calculations.

## Equipment Efficiency

The average energy consumption of a particular technology is initially based on estimates derived from RECS 2005.  Appliance efficiency is either derived from a long history of shipment data (e.g., the efficiency of conventional air-source heat pumps) or assumed based on engineering information concerning typical installed equipment (e.g., the efficiency of ground-source heat pumps).  When the average efficiency is computed from shipment data, shipments going back as far as 20 to 30 years are combined with assumptions concerning equipment lifetimes.  This allows for  not only an  average efficiency to be calculated, but also for equipment retirements to be vintaged—older equipment tends to be lower in efficiency and also tends to get retired before newer, more efficient equipment.  Once equipment is retired, the Appliance Stock and Technology Choice Modules determine the efficiency of the replacement equipment.  It is often the case that the retired equipment is replaced by substantially more efficient equipment.

As the stock efficiency changes over the simulation interval, energy consumption decreases in inverse proportion to efficiency.  Also, as efficiency increases, the efficiency rebound effect (discussed below) will offset some of the reductions in energy consumption by increased demand for the end-use service.  For example, if the stock average for electric heat pumps is now 10 percent more efficient than in 2005, then all else constant (weather, real energy prices, shell efficiency, etc.),  energy consumption per heat pump would average about only 9 percent less.

## Adjusting for the Size of Housing Units

Information derived from RECS 2005 indicates that new construction (post-1990) is on average roughly 26 percent larger than the existing stock of housing.  Estimates for the size of each new home built in the projection period vary by type and region, and are determined by a log-trend projection based on historical data from the Bureau of the Census. [3] For existing structures, it is assumed that about 1 percent of households that existed in 2005 add about 600 square feet to the heated floor space in each year of the projection period. [4] The energy consumption for space heating, air conditioning, and lighting is assumed to increase with the square footage of the structure.  This results in an increase in the average size of the housing stock from 1,632 to 1,934 square feet from 2005 through 2035.

### Adjusting for Weather and Climate

Weather in any given year always includes short-term deviations from the expected longer-term average (or climate). Recognition of the effect of weather on space heating and air conditioning is necessary to avoid inadvertently projecting abnormal weather conditions into the future. In the residential module, adjustments are made to space heating and air conditioning UECs by Census Division by their respective heating and cooling degree-days (HDD and CDD). A 10 percent increase in HDD would increase space heating consumption by 10 percent over what it would have otherwise been. Over the projection period, the residential module uses a 10-year average for heating and cooling degree - days by Census Division, adjusted by projections in state population shifts.

### Short-Term Price Effect and Efficiency Rebound

It is assumed that energy consumption for a given end-use service is affected by the marginal cost of providing that service. That is, all else equal, a change in the price of a fuel will have an opposite, but less than proportional, effect on fuel consumption. The current value for the short-term elasticity parameter for non-electric fuels is -0.15. [5] This value implies that for a 1 percent increase in the price of a fuel, there will be a corresponding decrease in energy consumption of -0.15 percent. Another way of affecting the marginal cost of providing a service is through altered equipment efficiency. For example, a 10 percent increase in efficiency will reduce the cost of providing the end-use service by 10 percent. Based on the short-term efficiency rebound parameter, the demand for the service will rise by 1.5 percent (-10 percent multiplied by -0.15). Only space heating, cooling, and lighting are assumed to be affected by both elasticities and the efficiency rebound effect. For electricity, the short-term elasticity parameter is set to -0.30 to account for successful deployment of smart grid projects funded under the American Recovery and Reinvestment Act of 2009 (ARRA09).

### Shell Efficiency

The shell integrity of the building envelope is an important determinant of the heating and cooling load for each type of household. In the NEMS Residential Demand Module, the shell integrity is represented by an index, which changes over time to reflect improvements in the building shell. The shell integrity index is dimensioned by vintage of house, type of house, fuel type, service (heating and cooling), and Census Division. The age, type, location, and type of heating fuel are important factors in determining the level of shell integrity. Housing units that heat with electricity tend to have less air infiltration rates than homes that use other fuels. The age of homes are classified by new (post-2005) and existing. Existing homes are characterized by the RECS 2005 survey and are assigned a shell index value based on the mix of homes that exist in the base year (2005). The improvement over time in the shell integrity of these homes is a function of two factors—an assumed annual efficiency improvement and improvements made when real fuel prices increase (no price-related adjustment is made when fuel prices fall). For new construction, building shell efficiency is determined by the relative costs and energy bill savings for several levels of heating and cooling equipment, in conjunction with the building shell attributes. The packages represented in NEMS range from homes that meet the International Energy Conservation Code (IECC) [6] to homes that are built with the most efficient shell components. Shell efficiency in new homes would increase over time if energy prices rise, or the cost of more efficient equipment falls, all else equal.

# Legislation and Regulations

### American Recovery and Reinvestment Act of 2009 (ARRA09)

The ARRAA09 legislation passed in February 2009 provides energy efficiency funding for Federal agencies, State Energy Programs, and block grants, as well as a sizable increase in funding for weatherization. To account for the impact of this funding, it is assumed that the total funding is aimed at increasing the efficiency of the existing housing stock. The assumptions regarding the energy savings for heating and cooling are based on evaluations of the impact of weatherization programs over time. [7] Further, it is assumed each house requires a $2,600 investment to achieve the heating and cooling energy savings cited in the Oak Ridge study, with a 20 year life expectancy of the measures.

The ARRA09 provisions remove the cap on the 30-percent tax credit for ground-source heat pumps, solar PV, solar thermal water heaters, and small wind turbines through 2016. Additionally, the cap for the tax credits for other energy efficiency improvements, such as windows and efficient furnaces, was increased to $1500 through the end of 2010.

Successful deployment of smart grid projects based on ARRA09 funding could stimulate more rapid investment in smart grid technologies, especially smart meters on buildings and homes, which would make consumers more responsive to electricity price changes. To represent this, the price elasticity of demand for residential electricity was increased for the services that have the ability to alter energy intensity (e.g., lighting).

## Energy Improvement and Extension Act of 2008 (EIEA 2008)

EIEA 2008 extends and amends many of the tax credits that were made available to residential consumers in EPACT 2005. The tax credits for energy efficient equipment can now be claimed through 2016, while the $2000 cap for solar technologies has been removed. Additionally, the tax credit for ground-source (geothermal) heat pumps was increased to $2000. The production tax credits for dishwashers, clothes washers, and refrigerators were extended by one to two years, depending on the efficiency level and product. See the EPACT 2005 section below for more details about product coverage.

## Energy Independence and Security Act of 2007 (EISA 2007)

EISA 2007 contains several provisions that impact projections of residential energy use. Standards for general service incandescent light bulbs are phased-in over 2012-2014, with a more restrictive standard specified in 2020. It is estimated that these standards require 29 percent less watts per bulb in the first phase-in, increasing to 67 percent in 2020. EISA also updates the dehumidifier standard specified in EPACT 2005, resulting in 7 percent increase in electricity savings, relative to the EPACT 2005 requirement. New efficiency standards for external power supplies are set for July 1, 2008, reducing electricity use in both the active and no-load modes. Standards are also set for boilers (September 2012) and dishwashers (January 2010). Lastly, DOE is instructed to create standards for manufactured housing, requiring compliance to the latest International Energy Conservation Code (IECC) by the end of 2011.

## Energy Policy Act of 2005 (EPACT05)

The passage of the EPACT05 in August 2005 provides additional minimum efficiency standards for residential equipment and provides tax credits to producers and purchasers of energy efficient equipment and builders of energy efficient homes. The standards contained in EPACT05 include: 190 watt maximum for torchiere lamps in 2006; Dehumidifier standards for 2007 and 2012; and ceiling fan light kit standards in 2007. Manufactured homes that are 30 percent better than the latest code, a $1000 tax credit can be claimed in 2006 and 2007. Likewise, builders of homes that are 50 percent better than code can claim a $2000 credit over the same period. The builder tax credits and production tax credits are assumed to be passed through to the consumer in the form of lower purchase cost. EPACT05 includes production tax credits for energy efficient refrigerators, dishwashers, and clothes washers in 2006 and 2007, with dollar amounts varying by type of appliance and level of efficiency met, subject to annual caps. Consumers can claim a 10 percent tax credit in 2006 and 2007 for several types of appliances specified by EPACT05, including: Energy efficient gas, propane, or oil furnaces or boilers, energy efficient central air conditioners, air and ground source heat pumps, hot water heaters, and windows. Lastly, consumers can claim a 30 percent tax credit in 2006 and 2007 for purchases of solar PV, solar water heaters, and fuel cells, subject to a cap.

## National Appliance Energy Conservation Act of 1987

The Technology Choice Submodule incorporates equipment standards established by the National Appliance Energy Conservation Act of 1987 (NAECA). Some of the NAECA standards implemented in the module include: a Seasonal Energy Efficiency Rating (SEER) of 13.0 for central air conditioners and heat pumps; an Annual Fuel Utilization Efficiency (energy output over energy input) of 0.80 for oil and gas furnaces; an Efficiency Factor of 0.90 for electric water heaters; and refrigerator standards that set consumption limits to 510 kilowatt-hours per year in 2002.

# Residential Alternative Cases

## *Technology Cases*

In addition to the *AEO2009* reference case, three side cases were developed to examine the effect of equipment and building standards on residential energy use—a *2009 technology case,* a *best available technology case*, and a *high technology case*.  These side cases were analyzed in stand-alone (not integrated with the supply modules) NEMS runs and thus do not include supply-responses to the altered residential consumption patterns of the two cases.  *AEO2009* also analyzed *integrated 2009 technology* and *high technology cases*.  The *integrated 2009 technology case* combines the *2009 technology cases* of the four end-use demand sectors, the *electricity low fossil technology case*, and the assumption of renewable technologies fixed at 2009 levels.  The *integrated high technology case* uses the same approach, but for high technology.

The 2009 technology case assumes that all future equipment purchases are made based only on equipment available in 2009.  This case further assumes that existing building shell efficiencies will not improve beyond 2009 levels.

The *high technology case* assumes earlier availability, lower costs, and/or higher efficiencies for more advanced equipment than the reference case.  Equipment assumptions were developed by engineering technology experts, considering the potential impact on technology given increased research and development into more advanced technologies. [8]  In the *high technology case*, all new construction is assumed to meet Energy Star specifications after 2016. In addition, consumers are assumed to evaluate energy efficiency investments at 7 percent real.

The *best available technology case* assumes that all equipment purchases from 2010 forward are based on the highest available efficiency in the *high technology case* in a particular simulation year, disregarding the economic costs of such a case.  This case is designed to show how much the choice of the highest-efficiency equipment could affect energy consumption.   In this case, all new construction is built to the most efficient specifications after 2009.  In addition, consumers are assumed to evaluate energy efficiency investments at 7 percent real.

# Notes and Sources

[1]  The Model Documentation Report contains additional details concerning model structure and  operation. Refer to Energy Information Administration, Model Documentation Report:  Residential Sector Demand Module of the National Energy Modeling System, DOE/EIA-M065(2008),  (March 2009).

[2]   Among the explanations often mentioned for observed high average implicit discount rates are: market failures, (i.e., cases where incentives are not properly aligned for markets to result in    purchases based on energy economics alone); unmeasured technology costs (i.e., extra costs of adoption which are not included or difficult to measure like employee down-time); characteristics of efficient technologies viewed as less desirable than their less efficient alternatives (such as equipment noise levels or lighting quality characteristics); and the risk inherent in making irreversible investment decisions.  Examples of market failures/barriers include: decision makers having less than complete information, cases where energy equipment decisions are made by parties not responsible for energy bills (e.g., landlord/tenants, builders/home buyers), discount horizons which are truncated (which  might be caused by mean occupancy times that are less than the simple payback time and that could possibly be classified as an information failure), and lack of appropriate credit vehicles for making efficiency investments, to name a few.  The use of high implicit discount rates in NEMS merely recognizes that such rates are typically found to apply to energy-efficiency investments.

[3]  U.S. Bureau of Census, Series C25 Data from various years of publications.

[4] Sources: U.S. Bureau of Census, Annual Housing Survey 2001 and Professional Remodler, 2002 Home Remodeling Study.

[5] See DAHL, CAROL, *A Survey of Energy Demand Elasticities in Support of the Development of the NEMS*, October 1993.

[6]  The IECC established guidelines for builders to meet specific targets concerning energy efficiency with respect to heating and cooling load.

[7] The high technology assumptions are based on Energy Information Administration, Technology Forecast Updates-Residential and Commercial Building technologies-Advanced Adoption Case (Navigant Consulting, September 2007).

[8] Oak Ridge National Laboratory, *Estimating the National Effects of the U.S. Department of Energy's Weatherization Assistance Program with State-Level Data:  A Metaevaluation Using Studies from 1993 to 2005*, September 2005.

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# Commercial Demand Module

The NEMS Commercial Sector Demand Module generates projections of commercial sector energy demand through 2035. The definition of the commercial sector is consistent with EIA's State Energy Data System (SEDS). That is, the commercial sector includes business establishments that are not engaged in transportation or in manufacturing or other types of industrial activity (e.g., agriculture, mining or construction). The bulk of commercial sector energy is consumed within buildings; however, street lights, pumps, bridges, and public services are also included if the establishment operating them is considered commercial. Since most of commercial energy consumption occurs in buildings, the commercial module relies on the data from the EIA Commercial Buildings Energy Consumption Survey (CBECS) for characterizing the commercial sector activity mix as well as the equipment stock and fuels consumed to provide end use services [1].

The commercial module projects consumption by fuel [2] at the Census division level using prices from the NEMS energy supply modules, and macroeconomic variables from the NEMS Macroeconomic Activity Module (MAM), as well as external data sources (technology characterizations, for example). Energy demands are projected for ten end-use services [3] for eleven building categories [4] in each of the nine Census divisions (see Figure 5).  The model begins by developing projections of floorspace for the 99 building category and Census division combinations. Next, the ten end-use service demands required for the projected floorspace are developed. The electricity generation and water and space heating supplied by distributed generation and combined heat and power technologies are projected. Technologies are then chosen to meet the projected service demands for the seven major end uses.[5]   Once technologies are chosen, the energy consumed by the equipment stock (both existing and purchased equipment) is developed to meet the projected end-use service demands. [6]

## Key Assumptions

The key assumptions made by the commercial module are presented in terms of the flow of the calculations described above. The sections below summarize the assumptions in each of the commercial module submodules: floorspace, service demand, distributed generation, technology choice, and end-use consumption. The submodules are executed sequentially in the order presented, and the outputs of each submodule become the inputs to subsequently executed submodules. As a result, key projection drivers for the floorspace submodule are also key drivers for the service demand submodule, and so on.

### *Floorspace Submodule*

Floorspace is projected by starting with the previous year's stock of floorspace and eliminating a portion to represent the age-related removal of buildings. Total floorspace is the sum of the surviving floorspace plus new additions to the stock derived from the MAM floorspace growth projection. [7]

### *Existing Floorspace and Attrition*

Existing floorspace is based on the estimated floorspace reported in the 2003 *Commercial Buildings Energy Consumption Survey* (Table 5.1). Over time, the 2003 stock is projected to decline as buildings are removed from service (floorspace attrition). Floorspace attrition is estimated by a logistic decay function, the shape of which is dependent upon the values of two parameters: average building lifetime and *gamma*. The average building lifetime refers to the median expected lifetime of a particular building type.  The *gamma* parameter corresponds to the rate at which buildings retire near their median expected lifetime. The current values for the average building lifetime and *gamma* vary by building type as presented in Table 5.2. [8]

**Table 5.1. 2003 Total Floorspace by Census Division and Principal Building Activity**
(Millions of Square Feet)

| | Assem-bly | Educa-tion | Food Sales | Food Service | Health Care | Lodging | Large Office | Small Office | Merc/ Service | Ware-house | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| New England | 431 | 299 | 75 | 45 | 48 | 374 | 282 | 320 | 819 | 411 | 351 | 3,452 |
| Middle Atlantic | 1,243 | 1,384 | 163 | 127 | 310 | 797 | 1,523 | 1,065 | 1,641 | 1,112 | 1,177 | 10,543 |
| East North Central | 1,355 | 1,990 | 218 | 248 | 316 | 549 | 1,297 | 1,129 | 2,148 | 2,023 | 1,152 | 12,424 |
| West North Central | 772 | 552 | 102 | 206 | 123 | 595 | 219 | 704 | 1,045 | 994 | 369 | 5,680 |
| South Atlantic | 1,161 | 2,445 | 223 | 433 | 469 | 939 | 1,173 | 1,065 | 3,391 | 1,836 | 865 | 13,999 |
| East South Central | 546 | 341 | 67 | 99 | 134 | 368 | 195 | 371 | 985 | 390 | 223 | 3,719 |
| West South Central | 965 | 1,198 | 197 | 232 | 235 | 387 | 916 | 501 | 2,076 | 1,740 | 575 | 9,022 |
| Mountain | 411 | 640 | 64 | 32 | 94 | 438 | 230 | 535 | 1,087 | 506 | 168 | 4,207 |
| Pacific | 809 | 1,027 | 146 | 232 | 176 | 649 | 1,028 | 915 | 2,051 | 1,066 | 515 | 8,613 |
| United States | 7,693 | 9,874 | 1,255 | 1,654 | 1,905 | 5,096 | 6,861 | 6,605 | 15,242 | 10,078 | 5,395 | 71,658 |

Note: Totals may not equal sum of components due to independent rounding.

Source: Energy Information Administration, 2003 Commercial Buildings Energy Consumption Survey Public Use Data

**Table 5.2. Floorspace Attrition Parameters**

| | Assem-bly | Educa-tion | Food Sales | Food Service | Health Care | Lodging | Large Office | Small Office | Merc/ Service | Ware-house | Other |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Median Expected Lifetime (years) | 55 | 62 | 55 | 50 | 55 | 53 | 65 | 58 | 50 | 58 | 60 |
| gamma | 2.2 | 2.1 | 2.3 | 2.0 | 2.5 | 2.1 | 2.0 | 2.0 | 2.2 | 2.0 | 2.3 |

Sources: Energy Information Administration, Commercial Buildings Energy Consumption Survey 2003, 1999, 1995, 1992, and 1989 Public Use Data, 1986 Nonresidential Buildings Energy Consumption Survey, McGraw-Hill Construction Dodge Annual Starts - non residential building starts, Northwest Energy Efficiency Alliance, Assessment of the Commercial Building Stock in the Pacific Northwest, KEMA-XENERGY, Inc., March 2004, and public information on demolitions.

## New Construction Additions to Floorspace

The commercial module develops estimates of projected commercial floorspace additions by combining the surviving floorspace estimates with the total floorspace projection from MAM. A total NEMS floorspace projection is calculated by applying the MAM assumed floorspace growth rate within each Census division and MAM building type to the corresponding NEMS Commercial Demand Module's building types based on the CBECS building type shares. The NEMS surviving floorspace from the previous year is then subtracted from the total NEMS floorspace projection for the current year to yield new floorspace additions. [9]

## Service Demand Submodule

Once the building stock is projected, the Commercial Demand module develops a projection of demand for energy-consuming services required for the projected floorspace. The module projects service demands for the following explicit end-use services: space heating, space cooling, ventilation, water heating, lighting, cooking, refrigeration, personal computer office equipment, and other office equipment. [10] The service demand intensity (SDI) is measured in thousand Btu of end-use service demand per square foot and differs across service, Census division and building type. The SDIs are based on a hybrid engineering and statistical approach of CBECS consumption data. [11] Projected service demand is the product of square feet and SDI for all end uses across the eleven building categories with adjustments for changes in shell efficiency for space heating and cooling.

## Shell Efficiency

The shell integrity of the building envelope is an important determinant of the heating and cooling loads for each type of building. In the NEMS Commercial Demand Module, the shell efficiency is represented by an index, which changes over time to reflect improvements in the building shell. This index is dimensioned by building type and Census division and applies directly to heating. Shell efficiency effects on cooling demand are computed from the index considering the effects of shell improvements on internal heat gains from lighting, people, computers, etc. In the *AEO2010* reference case building shells for new construction built in 2003 are up to 60 percent more efficient than the average shell for existing buildings of the same type. Over the projection horizon, new building shells improve in efficiency by 14 percent relative to their efficiency in 2003. For existing buildings, efficiency is assumed to increase by 6 percent over the 2003 stock average. The shell efficiency index affects the space heating and cooling service demand intensities causing changes in fuel consumed for these services as the shell integrity improves.

## Distributed Generation and Combined Heat and Power

Program driven installations of solar photovoltaic systems are based on information from DOE's Photovoltaic program as well as DOE and industry news releases, State-level program information and the National Renewable Energy Laboratory's Renewable Electric Plant Information System. Historical data from Form EIA-860, *Annual Electric Generator Report*, are used to derive electricity generation for 2004 through 2008 by Census division, building type and fuel. A projection of distributed generation and combined heat and power (CHP) of electricity is developed based on the economic returns projected for distributed generation and CHP technologies. The model uses a detailed cash-flow approach to estimate the internal rate of return for an investment. Penetration assumptions for distributed generation and CHP technologies are a function of the estimated internal rate of return relative to purchased electricity. Table 5.3 provides the cost and performance parameters for representative distributed generation and CHP technologies.

The model also incorporates endogenous "learning" for new distributed generation and CHP technologies, allowing for declining technology costs as shipments increase. For fuel cell and photovoltaic systems, parameter assumptions for the *AEO2010* reference case result in a 13 percent reduction in capital costs each time the number of units shipped to the buildings sectors (residential and commercial) doubles. Doubling the number of microturbines shipped results in a 10 percent reduction in capital costs and doubling the number of distributed wind systems shipped results in a 3 percent reduction.

## Technology Choice Submodule

The technology choice submodule develops projections of the results of the capital purchase decisions for equipment fueled by the three major fuels (electricity, natural gas, and distillate fuel). Capital purchase decisions are driven by assumptions concerning behavioral rule proportions and time preferences, described below, as well as projected fuel prices, average utilization of equipment (the capacity factors), relative technology capital costs, and operating and maintenance (O&M) costs.

### Decision Types

In each projection year, equipment is potentially purchased for three "decision types". Equipment must be purchased for newly added floorspace and to replace the portion of equipment in existing floorspace that is projected to wear out. [12] Equipment is also potentially purchased for retrofitting equipment that has become economically obsolete. The purchase of retrofit equipment occurs only if the annual operating costs of a current technology exceed the annualized capital and operating costs of a technology available as a retrofit candidate.

### Behavioral Rules

The commercial module allows the use of three alternate assumptions about equipment choice behavior. These assumptions constrain the equipment selections to three choice sets, which are progressively more restrictive. The choice sets vary by decision type and building type:

- **Unrestricted Choice Behavior -** This rule assumes that commercial consumers consider *all* types of equipment that meet a given service, across all fuels, when faced with a capital purchase decision.

- **Same Fuel Behavior -** This rule restricts the capital purchase decision to the set of technologies that consume the *same fuel* that currently meets the decision maker's service demand.

**Table 5.3. Capital Cost and Performance Parameters of Selected Commercial Distributed Generation Technologies**

| Technology Type | Year | Average Generating Capacity (kW) | Electrical Efficiency | Combined Efficiency (Elec.+Thermal) | Installed Capital Cost ($2005 per kW of Capacity)* | Service Life (Years) |
|---|---|---|---|---|---|---|
| Solar Photovoltaic | 2008 | 30 | 0.16 | N/A | $6,362 | 30 |
| | 2010 | 32 | 0.18 | N/A | $5,717 | 30 |
| | 2015 | 35 | 0.20 | N/A | $4,135 | 30 |
| | 2020 | 40 | 0.22 | N/A | $3,830 | 30 |
| | 2025 | 40 | 0.22 | N/A | $3,790 | 30 |
| | 2030 | 45 | 0.25 | N/A | $3,200 | 30 |
| Fuel Cell | 2008 | 200 | 0.41 | 0.68 | $6,121 | 20 |
| | 2010 | 200 | 0.44 | 0.66 | $5,989 | 20 |
| | 2015 | 200 | 0.45 | 0.67 | $5,203 | 20 |
| | 2020 | 200 | 0.47 | 0.69 | $4,187 | 20 |
| | 2025 | 200 | 0.48 | 0.70 | $3,647 | 20 |
| | 2030 | 200 | 0.49 | 0.72 | $3,108 | 20 |
| Natural Gas Engine | 2008 | 300 | 0.31 | 0.78 | $1,980 | 20 |
| | 2010 | 300 | 0.32 | 0.78 | $1,878 | 20 |
| | 2015 | 300 | 0.32 | 0.78 | $1,714 | 20 |
| | 2020 | 300 | 0.32 | 0.78 | $1,551 | 20 |
| | 2025 | 300 | 0.33 | 0.79 | $1,343 | 20 |
| | 2030 | 300 | 0.33 | 0.79 | $1,134 | 20 |
| Oil-Fired Engine | 2008 | 300 | 0.34 | 0.74 | $2,391 | 20 |
| | 2010 | 300 | 0.34 | 0.74 | $2,268 | 20 |
| | 2015 | 300 | 0.35 | 0.74 | $2.071 | 20 |
| | 2020 | 300 | 0.35 | 0.74 | $1,873 | 20 |
| | 2025 | 300 | 0.36 | 0.78 | $1,622 | 20 |
| | 2030 | 300 | 0.36 | 0.82 | $1,370 | 20 |
| Natural Gas Turbine | 2008 | 1000 | 0.23 | 0.68 | $1,865 | 20 |
| | 2010 | 1000 | 0.23 | 0.68 | $1,775 | 20 |
| | 2015 | 1000 | 0.24 | 0.68 | $1,684 | 20 |
| | 2020 | 1000 | 0.24 | 0.69 | $1,593 | 20 |
| | 2025 | 1000 | 0.25 | 0.69 | $1,511 | 20 |
| | 2030 | 1000 | 0.26 | 0.70 | $1,429 | 20 |
| Natural Gas Micro Turbine | 2008 | 250 | 0.29 | 0.60 | $2,540 | 20 |
| | 2010 | 250 | 0.29 | 0.60 | $2,328 | 20 |
| | 2015 | 250 | 0.31 | 0.60 | $1,981 | 20 |
| | 2020 | 250 | 0.33 | 0.61 | $1,634 | 20 |
| | 2025 | 250 | 0.34 | 0.62 | $1,343 | 20 |
| | 2030 | 250 | 0.36 | 0.63 | $1,052 | 20 |
| Wind | 2008 | 30 | 0.13 | N/A | $3,626 | 30 |
| | 2010 | 32 | 0.13 | N/A | $3,445 | 30 |
| | 2015 | 35 | 0.13 | N/A | $3,159 | 30 |
| | 2020 | 40 | 0.13 | N/A | $3,085 | 30 |
| | 2025 | 40 | 0.13 | N/A | $3,078 | 30 |
| | 2030 | 50 | 0.13 | N/A | $3,071 | 30 |

*Installed costs are given in 2005 dollars in the original source document.  Costs for solar photovoltaic, fuel cell,  microturbine, and wind  technologies include learning effects.

Sources: Energy Information Administration, *Commercial and Industrial CHP Technology Cost and Performance Data Analysis for EIA's NEMS,* Decision Analysis Corporation and Discovery Insights LLC., February 2006, National Renewable Energy Laboratory, *Gas-Fired Distributed Energy Resource Technology Characterizations: Reference Number NREL/TP-620-34783,* November 2003, Discovery Insights, *LLC, "Installed Costs for Small CHP Systems - Estimates and Projections"* (April 2005) California Solar Initiative program data, and  Solar  Energy Industries Association, *Our Solar Power Future - The U.S. Photovoltaic Industry Roadmap through 2030 and Beyond,*  (SEIA, September 2004).

- **Same Technology Behavior -** Under this rule, commercial consumers consider only the available models of the *same technology and fuel* that currently meet service demand, when facing a capital stock decision.

Under any of the above three behavior rules, equipment that meets the service at the lowest annualized lifecycle cost is chosen. Table 5.4 illustrates the proportions of floorspace subject to the different behavior rules for space heating technology choices in large office buildings.

**Table 5.4. Assumed Behavior Rules for Choosing Space Heating Equipment in Large Office Buildings**
(Percent)

|  | Unrestricted | Same Fuel | Same Technology | Total |
|---|---|---|---|---|
| New Equipment Decision | 21 | 30 | 49 | 100 |
| Replacement Decision | 7 | 31 | 62 | 100 |
| Retrofit Decision | 1 | 4 | 95 | 100 |

Source: Energy Information Administration, *Model Documentation Report: Commercial Sector Demand Module of the National Energy Modeling System*, DOE/EIA-M066(2010) (June 2010).

### *Time Preferences*

Commercial building owners' time preferences regarding current versus future expenditures are assumed to be distributed among seven alternate time preference premiums. Adding the risk-adjusted time preference premiums to the 10-year Treasury Bill rate from MAM results in implicit discount rates, also known as hurdle rates, applicable to the assumed proportions of commercial floorspace. The effect of the use of this distribution of discount rates is to prevent a single technology from dominating purchase decisions in the lifecycle cost comparisons. The distribution used for *AEO2010* assigns some floorspace a very high discount or hurdle rate to simulate floorspace which will never retrofit existing equipment and which will only purchase equipment with the lowest capital cost. Discount rates for the remaining six segments of the distribution get progressively lower, simulating increased sensitivity to the fuel costs of the equipment that is purchased. The share of floorspace assigned to each rate in the distribution varies by end-use service. Table 5.6 illustrates the distribution of time preference premiums for space heating and lighting in 2015. The proportion of floorspace assumed for the 0.0 time preference premium represents an estimate of the Federally owned commercial floorspace that is subject to purchase decisions in a given year. The Federal sector is expected to purchase energy-efficient equipment to meet the Federal buildings performance standards of the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007 whenever cost effective. For Federal purchase decisions relating to energy conservation, cost effectiveness is determined using a discount rate based on long-term Treasury bond rates, approximated in the commercial module by the 10-year Treasury Bill rate. For lighting, the proportion of floorspace assumed for the 0.0 time preference premium is increased to include all Federal floorspace starting in 2009 to represent the EISA 2007 provision that all Federal buildings be equipped with energy efficient lighting fixtures and bulbs to the maximum extent feasible, including when replacing bulbs in existing fixtures.

**Table 5.5. Assumed Distribution of Risk-adjusted Time Preference Premiums for Space Heating and Lighting Equipment in 2015**
(Percent)

| Proportion of Floorspace-Space Heating (2015) | Proportion of Floorspace-Lighting (2015) | Time Preference Premium |
|---|---|---|
| 27.0 | 27.0 | 1000.0 |
| 23.0 | 23.0 | 100 |
| 19.0 | 18.6 | 45 |
| 18.6 | 18.6 | 25 |
| 10.7 | 8.8 | 15 |
| 1.5 | 1.5 | 6.5 |
| 0.2 | 2.5 | 0.0 |
| 100.0 | 100.0 | -- |

Source: Energy Information Administration, *Model Documentation Report: Commercial Sector Demand Module of the National Energy Modeling System*, DOE/EIA-M066(2010) (June 2010).

The distribution of hurdle rates used in the commercial module is also affected by changes in fuel prices. If a fuel's price rises relative to its price in the base year (2003), the nonfinancial portion of each hurdle rate in the distribution decreases to reflect an increase in the relative importance of fuel costs, expected in an environment of rising prices. Parameter assumptions for *AEO2010* result in a 30 percent reduction in the nonfinancial portion of a hurdle rate if the fuel price doubles. If the risk-adjusted time preference premium input by the model user results in a hurdle rate below the assumed financial discount rate for the commercial sector, 15 percent, with base year fuel prices (such as the rate given in Table 5.5 for the Federal sector), no response to increasing fuel prices is assumed.

### *Technology Characterization Database*

The technology characterization database organizes all relevant technology data by end use, fuel, and Census division. Equipment is identified in the database by a technology index as well as a vintage index, the index of the fuel it consumes, the index of the service it provides, its initial market share, the Census division index for which the entry under consideration applies, its efficiency (or coefficient of performance or efficacy in the case of lighting equipment), installed capital cost per unit of service demand satisfied, operating and maintenance cost per unit of service demand satisfied, average service life, year of initial availability, and last year available for purchase. Equipment may only be selected to satisfy service demand if the year in which the decision is made falls within the window of availability. Equipment acquired prior to the lapse of its availability continues to be treated as part of the existing stock and is subject to replacement or retrofitting. This flexibility in limiting equipment availability allows the direct modeling of equipment efficiency standards. Table 5.6 provides a sample of the technology data for space heating in the New England Census division.

An option has been included to allow endogenous price-induced technological change in the determination of equipment costs and availability for the menu of equipment. This concept allows future technologies faster diffusion into the market place if fuel prices increase markedly for a sustained period of time. The option was not exercised for the *AEO2010* model runs.

## End-Use Consumption Submodule

The end-use consumption submodule calculates the consumption of each of the three major fuels for the ten end-use services plus fuel consumption for combined heat and power and district services. For the ten end-use services, energy consumption is calculated as the end-use service demand met by a particular type of equipment divided by its efficiency and summed over all existing equipment types. This calculation includes dimensions for Census division, building type, and fuel. Consumption of the five minor fuels is projected based on historical trends.

### *Equipment Efficiency*

The average energy consumption of a particular appliance is based initially on estimates derived from the 2003 CBECS. As the stock efficiency changes over the model simulation, energy consumption decreases nearly, but not quite proportionally to the efficiency increase. The difference is due to the calculation of efficiency using the harmonic average and also the efficiency rebound effect discussed below. For example, if on average, electric heat pumps are now 10 percent more efficient than in 2003, then all else constant (weather, real energy prices, shell efficiency, etc.), energy consumption per heat pump would now average about 9 percent less. The Service Demand and Technology Choice Submodules together determine the average efficiency of the stocks used in adjusting the initial average energy consumption.

### *Adjusting for Weather and Climate*

Weather in any given year always includes short-term deviations from the expected longer-term average (or climate). Recognition of the effect of weather on space heating and air conditioning is necessary to avoid projecting abnormal weather conditions into the future. In the commercial module, proportionate adjustments are made to space heating and air conditioning demand by Census division. These adjustments are based on National Oceanic and Atmospheric Administration (NOAA) data for Heating Degree Days (HDD) and Cooling Degree Days (CDD). A 10 percent increase in HDD would increase space heating consumption by 10 percent over what it would have been otherwise. The commercial module uses a 10-year average for HDD and CDD by Census division, adjusted over the projection period by projections for state population shifts.

**Table 5.6.  Capital Cost and Efficiency Ratings of Selected Commercial Space Heating Equipment[1]**

| Equipment Type | Vintage | Efficiency[2] | Capital Cost ($2007 per Mbtu/hour)[3] | Maintenance Cost ($2007 per Mbtu/hour)[3] | Service Life (Years) |
|---|---|---|---|---|---|
| Electric Rooftop Heat Pump | 2007- typical | 3.2 | $72.78 | $1.39 | 15 |
| | 2007- high efficiency | 3.4 | $96.67 | $1.39 | 15 |
| | 2010 - typical (standard) | 3.3 | $76.67 | $1.39 | 15 |
| | 2010 - high efficiency | 3.4 | $96.67 | $1.39 | 15 |
| | 2020 - typical | 3.3 | $76.67 | $1.39 | 15 |
| | 2020 - high efficiency | 3.4 | $96.67 | $1.39 | 15 |
| Ground-Source Heat Pump | 2007- typical | 3.5 | $140.00 | $16.80 | 20 |
| | 2007- high efficiency | 4.9 | $170.00 | $16.80 | 20 |
| | 2010- typical | 3.5 | $140.00 | $16.80 | 20 |
| | 2010 - high efficiency | 4.9 | $170.00 | $16.80 | 20 |
| | 2020 - typical | 4.0 | $140.00 | $16.80 | 20 |
| | 2020 - high efficiency | 4.9 | $170.00 | $16.80 | 20 |
| Electric Boiler | Current typical | 0.98 | $17.53 | $0.58 | 21 |
| Packaged Electric | Typical | 0.96 | $16.87 | $3.95 | 18 |
| Natural Gas Furnace | Current Standard | 0.80 | $9.35 | $0.97 | 20 |
| | 2007 - high efficiency | 0.82 | $9.90 | $0.94 | 20 |
| | 2020 - typical | 0.81 | $9.23 | $0.96 | 20 |
| | 2020 - high efficiency | 0.90 | $11.57 | $0.86 | 20 |
| | 2030 - typical | 0.82 | $9.12 | $0.94 | 20 |
| | 2030 - high efficiency | 0.91 | $11.44 | $0.85 | 20 |
| Natural Gas Boiler | Current Standard | 0.78 | $21.56 | $0.48 | 25 |
| | 2007 - mid efficiency | 0.84 | $24.35 | $0.45 | 25 |
| | 2007 -  high efficiency | 0.95 | $38.28 | $0.50 | 25 |
| | 2012 -  standard | 0.80 | $21.02 | $0.47 | 25 |
| Natural Gas Heat Pump | 2007 - absorption | 1.4 | $158.33 | $2.50 | 15 |
| | 2010 - absorption | 1.4 | $158.33 | $2.50 | 15 |
| | 2020 - absorption | 1.4 | $158.33 | $2.50 | 15 |
| Distillate Oil Furnace | Current Standard | 0.81 | $11.14 | $0.96 | 20 |
| | 2020 - typical | 0.81 | $11.14 | $0.96 | 20 |
| Distillate Oil Boiler | Current Standard | 0.80 | $17.19 | $0.15 | 20 |
| | 2007 - high efficiency | 0.87 | $19.16 | $0.14 | 20 |
| | 2012 - standard | 0.81 | $16.98 | $015 | 20 |

[1]Equipment listed is for the New England Census division, but is also representative of the technology data for the rest of the U.S. See the source referenced below for the complete set of technology data.

[2]Efficiency measurements vary by equipment type. Electric rooftop air-source heat pumps, ground source and natural gas heat pumps are rated for heating performance using coefficient of performance; natural gas and distillate furnaces and boilers are based on Thermal Efficiency.

[3]Capital and maintenance costs are given in 2007 dollars.

Source: Energy Information Administration, "EIA - Technology Forecast Updates - Residential and Commercial Building Technologies - Reference Case Second  Edition (Revised)", Navigant Consulting, Inc., Reference Number 20070831.1, September 2007.

### Short-Term Price Effect and Efficiency Rebound

It is assumed that energy consumption for a given end-use service is affected by the marginal cost of providing that service. That is, all else equal, a change in the price of a fuel will have an inverse, but less than proportional, effect on fuel consumption. The current value for the short-term price elasticity parameter is -0.25 for all major end uses except refrigeration. A value of -0.1 is currently used for commercial refrigeration. A value of -0.05 is currently used for PC and non-PC office equipment and other minor uses of electricity. For example, for lighting this value implies that for a 1 percent increase in the price of a fuel, there will be a corresponding decrease in energy consumption of 0.25 percent. Another way of affecting the marginal cost of providing a service is through equipment efficiency. As equipment efficiency changes over time, so will the marginal cost of providing the end-use service. For example, a 10 percent increase in efficiency will reduce the cost of providing the service by 10 percent. The short-term elasticity parameter for efficiency rebound effects is -0.15 for affected end uses; therefore, the demand for the service will rise by 1.5 percent (-10 percent x -0.15). Currently, all services are affected by the short-term price effect and services affected by efficiency rebound are space heating and cooling, water heating, ventilation and lighting.

# Legislation and Regulations

### American Recovery and Reinvestment Act of 2009 (ARRA09)

The ARRAA09 legislation passed in February 2009 provides energy efficiency funding for Federal agencies, State Energy Programs, and block grants. To account for the impact of this funding, States are assumed to adopt and enforce the ASHRAE 90.1-2007 standard by 2018 for building shell measures and all Public buildings (Federal, state, and local) are assumed to use the 10-year treasury bill rate for purchase decisions related to both new construction and replacement equipment while stimulus funding is available. A percentage of the State Energy Program and Conservation Block Grant funding is assumed to be used for solar photovoltaic and small wind turbine installations. Additional stimulus funding is applied to fuel cell installations.

The ARRA09 provisions remove the cap on the 30-percent Business Investment Tax Credit for wind turbines. The Investment Tax Credit is still available for systems installed through 2016. These credits are directly incorporated into the cash-flow approach for distributed generation systems.

Successful deployment of smart grid projects based on ARRA09 funding could stimulate more rapid investment in smart grid technologies, especially smart meters on buildings and homes, which would make consumers more responsive to electricity price changes. To represent this, the price elasticity of demand for commercial electricity was increased for the heating, cooling, ventilation, and lighting end uses.

### Energy Improvement and Extension Act of 2008 (EIEA08)

The EIEA08 legislation passed in October 2008 extends the Business Investment Tax Credit provisions of the Energy Policy Act of 2005 and expands the credit to include additional technologies. The Business Investment Tax Credits of 30 percent for solar energy systems and fuel cells and 10 percent for microturbines are extended through 2016. The cap on the fuel cell credit has been increased from $500 to $1,500 per half kilowatt of capacity. The EIEA08 provisions expand the Investment Tax Credit to include a 10-percent credit for CHP systems and ground-source heat pumps and a 30-percent credit for wind turbines with the wind credit capped at $4,000. The expanded credits are available for systems installed through 2016. These credits are directly incorporated into the cash-flow approach for distributed generation systems, including CHP, and factored into the installed capital cost assumptions for solar hot water heaters and ground-source heat pumps.

### Energy Independence and Security Act of 2007 (EISA07)

The EISA07 legislation passed in December 2007 provides standards for the following explicitly modeled commercial equipment. The EISA07 requires specific energy efficiency measures in commercial walk-in coolers and walk-in freezers effective January 1, 2009. Incandescent and halogen lamps must meet standards for maximum allowable wattage based on lumen output starting in 2012 and metal halide lamp fixtures using lamps between 150 and 500 watts are required to have a minimum ballast efficiency ranging from 88 to 94 percent, depending on ballast type, effective January 1, 2009.

The EISA07 requirement for Federal buildings to use energy efficient lighting fixtures and bulbs to the maximum extent possible is represented by adjusting the proportion of the commercial sector assumed to use the 10-year Treasury Bill rate as an implicit discount or hurdle rate for lighting.

## Energy Policy Act of 2005 (EPACT05)

The passage of the EPACT05 in August 2005 provides additional minimum efficiency standards for commercial equipment. Some of the standards for explicitly modeled equipment, effective January 1, 2010, include: an Energy Efficiency Rating (EER) ranging from 10.8 to 11.2 for small package air conditioning and heating equipment; daily electricity consumption limits by volume for commercial refrigerators, freezers, and refrigerator-freezers; and electricity consumption limits per 100 pounds of ice produced based on equipment type and capacity for automatic ice makers. The EPACT05 adds standards for medium base compact fluorescent lamps effective January 1, 2006, for ballasts for Energy Saver fluorescent lamps effective in 2009 and 2010, and bans the manufacture or import of mercury vapor lamp ballasts effective January 1, 2008.

Several efficiency standards in the EPACT05 pertain to equipment not explicitly represented in the NEMS Commercial Demand Module. For low voltage dry-type transformers, effects of the standard are included in estimating the share of projected miscellaneous electricity use attributable to transformer losses. For illuminated exit signs, traffic signals, and commercial prerinse spray valves, assumed energy reductions are calculated based on per-unit savings relative to a baseline unit and the estimated share of installed units and sales that already meet the standard. Total projected reductions are phased in over time to account for stock turnover. Under the EPACT05 standards, illuminated exit signs and traffic signal modules must meet ENERGY STAR program requirements as of January 1, 2006. The requirements limit input power demand to 5 watts or less per face for exit signs. Nominal wattages for traffic signal modules are limited to 8 to 15 watts, based on module type. Effective January 1, 2007, low voltage dry-type distribution transformers are required to meet the National Electrical Manufacturers Association Class I Efficiency Levels with minimum efficiency levels ranging from 97 percent to 98.9 percent based on output. Commercial prerinse spray valves[13] must have a maximum flow rate of 1.6 gallons per minute, effective January 1, 2006 with energy reductions attributed to hot water use.

The EPACT05 expands the Business Investment Tax Credit to 30 percent for solar property installed in 2006 and 2007. Business Investment Tax Credits of 30 percent for fuel cells and 10 percent for microturbine power plants are also available for property installed in 2006 and 2007. The EPACT05 tax credit provisions were extended in December 2006 to cover equipment installed in 2008. These credits are directly incorporated into the cash-flow approach for distributed generation systems and factored into the installed capital cost assumptions for solar hot water heaters.

## Energy Policy Act of 1992 (EPACT92)

A key assumption incorporated in the technology selection process is that the equipment efficiency standards described in the EPACT92 constrain minimum equipment efficiencies. The effects of standards are modeled by modifying the technology database to eliminate equipment that no longer meets minimum efficiency requirements. Some of the EPACT92 standards implemented in the module include: gas and oil-fired boilers—minimum combustion efficiency of 0.8 and 0.83, respectively, amended to minimum thermal efficiency of 0.8 and 0.81, respectively, in 2012; gas and oil-fired furnaces—minimum thermal efficiency of 0.8 and 0.81, respectively; electric water heaters—minimum energy factor of 0.85; and gas and oil water heaters—minimum thermal efficency of 0.8 and 0.78, respectively. A fluorescent lamp ballast standard effective in 2005, mandates electronic ballasts with a minimum ballast efficacy factor of 1.17 for 4-foot, 2-lamp ballasts and 0.63 for 8-foot, 2-lamp ballasts. Fluorescent lamps and incandescent reflector lamb bulbs must meet amended standard levels for minimum average lamp efficacy in 2012. Recent updates for commercial refrigeration equipment include maximum energy consumption standards for refrigerated vending machines and display cases based on volume.

The 10 percent Business Investment Tax Credit for solar energy property included in EPACT92 is directly incorporated into the cash-flow approach for projecting distributed generation by commercial photovoltaic systems. For solar hot water heaters, the tax credit is factored into the installed capital cost assumptions used in the technology choice submodule.

# Energy Efficiency Programs

Several energy efficiency programs affect the commercial sector. These programs are designed to stimulate investment in more efficient building shells and equipment for heating, cooling, lighting, and other end uses. The commercial module includes several features that allow projected efficiency to increase in response to voluntary programs (e.g., the distribution of risk-adjusted time preference premiums and shell efficiency parameters). Retrofits of equipment for space heating, air conditioning and lighting are incorporated in the distribution of premiums given in Table 5.5. Also the shell efficiency of new and existing buildings is assumed to increase from 2003 through 2035. Shells for new buildings increase in efficiency by 14 percent over this period, while shells for existing buildings increase in efficiency by 6 percent.

# Commercial Alternative Cases

## Technology Cases

In addition to the *AEO2010* reference case, three side cases were developed to examine the effect of equipment and building standards on commercial energy use—a *2009 technology case*, a *high technology case*, and a *best available technology case*. These side cases were analyzed in stand-alone (not integrated with the NEMS demand and supply modules) buildings (residential and commercial) modules runs and thus do not include supply-responses to the altered commercial consumption patterns of the three cases. *AEO2010* also analyzed an *integrated high technology case*, which combines the *high technology cases* of the four end-use demand sectors, the *electricity low fossil technology cost case,* the *low nuclear cost case*, and the *low renewable cost case*, and an *integrated 2009 technology case*, which combines the *2009 technology cases* of the end-use demand sectors, the *electricity high fossil technology cost case*, the *high nuclear cost case*, and the *high renewable cost case*.

The *2009 technology case* assumes that all future equipment purchases are made based only on equipment available in 2009. This case assumes building shell efficiency to be fixed at 2009 levels. In the reference case, existing building shells are allowed to increase in efficiency by 6 percent over 2003 levels, and new building shells improve by 14 percent by 2035 relative to new buildings in 2003.

The *high technology case* assumes earlier availability, lower costs, and/or higher efficiencies for more advanced equipment than the reference case. Energy efficiency investments are evaluated at 7 percent real rather than the distribution of hurdle rates assumed for the reference case. Equipment assumptions were developed by engineering technology experts, considering the potential impact on technology given increased research and development into more advanced technologies. In the *high technology case*, building shell efficiencies are assumed to improve 25 percent more than in the reference case after 2009. Existing building shells, therefore, increase by 7.5 percent relative to 2003 levels and new building shells by 17.4 percent relative to their efficiency in 2003 by 2035.

The *best available technology case* assumes that all equipment purchases after 2009 are based on the highest available efficiency for each type of technology in the high technology case in a particular simulation year, disregarding the economic costs of such a case. It is designed to show how much the choice of the highest-efficiency equipment could affect energy consumption. Shell efficiencies in this case are assumed to improve 50 percent more than in the reference case after 2009, i.e., existing shells increase by 9 percent relative to 2003 levels and new building shells by 20.8 percent relative to their efficiency in 2003 by 2035.

Fuel shares, where appropriate for a given end use, are allowed to change in the technology cases as the available technologies from each technology type compete to serve certain segments of the commercial floorspace market. For example, in the *best available technology case*, the most efficient gas furnace technology competes with the most efficient electric heat pump technology. This contrasts with the reference case, in which, a greater number of technologies for each fuel with varying efficiencies all

compete to serve the heating end use.  In general, the fuel choice will be affected as the available choices are constrained or expanded, and will thus differ across the cases.

Two sensitivities that focus on electricity generation incorporate alternative assumptions for non-hydro renewable energy technologies in the power sector, the industrial sector, and the buildings sectors, including residential and commercial photovoltaic and wind systems.  In each of these cases, assumptions regarding non-renewable technologies are not changed from the reference case.

The *high renewable cost case* assumes that the cost and performance characteristics for residential and commercial photovoltaic and wind systems remain fixed at 2009 levels through the projection horizon.

The *low renewable cost case* assumes that costs for residential and commercial photovoltaic and wind systems are 10 percent below reference case assumptions in 2010 declining to at least 25 percent lower than reference case cost estimates by 2035.

# Notes and Sources

[1]  Energy Information Administration, 2003 Commercial Buildings Energy Consumption Survey (CBECS) Public Use Files, web site www.eia.doe.gov/emeu/cbecs/cbecs2003/public_use_2003/cbecs_pubdata 2003. html.

[2]  The fuels accounted for by the commercial module are electricity, natural gas, distillate fuel oil, residual fuel oil, liquefied petroleum gas (LPG), coal, motor gasoline, and kerosene.  Current commercial use of biomass (wood, Municipal solid waste) is also included. In addition to these fuels the use of solar energy is projected based on an exogenous estimate of existing solar photovoltaic system installations, projected installations due to State and local incentive programs, and the potential endogenous penetration of solar photovoltaic systems and solar thermal water heaters. The use of wind energy is projected based on an estimate of existing distributed wind turbines and the potential endogenous penetration of wind turbines in the commercial sector.

[3]  The end-use services in the commercial module are heating, cooling, water heating, ventilation, cooking, lighting, refrigeration, PC and non-PC office equipment and a category denoted other to account for all other minor end uses.

[4]  The 11 building categories are assembly, education, food sales, food services, health care, lodging, large offices, small offices, mercantile/services, warehouse and other.

[5]  Minor end uses are modeled based on penetration rates and efficiency trends.

[6]  The detailed documentation of the commercial module contains additional details concerning model structure and operation. Refer to Energy Information Administration, Model Documentation Report: Commercial Sector Demand Module of the National Energy Modeling System, DOE/EIA M066(2010), (June 2010).

[7]  The commercial floorspace equations of the Macroeconomic Activity Model are estimated using the McGraw-Hill Construction Research & Analytics database of historical floorspace estimates.  The McGraw-Hill Construction estimate for commercial floorspace in the U.S. is approximately 16 percent lower than the estimate obtained from the CBECS used for the Commercial module.  See F.W. Dodge, Building Stock Database Methodology and 1991 Results, Construction Statistics and Forecasts, F.W. Dodge, McGraw-Hill.

[8]  The commercial module performs attrition for 9 vintages of floorspace developed using stock estimates from the previous 5 CBECS and historical floorspace additions data from McGraw-Hill Construction data.

[9]  In the event that the computation of additions produce a negative value for a specific building type, it is assumed to be zero.

[10] "Other office equipment" includes copiers, fax machines, typewriters, cash registers, server computers, and other miscellaneous office equipment.  A tenth category denoted other includes equipment such as elevators, medical, and other laboratory equipment, communications equipment, security equipment, transformers and miscellaneous electrical appliances.  Commercial energy consumed outside of buildings and for combined heat and power is also included in the "other" category.

[11] Based on 2003 CBECS end-use-level consumption data developed using the methodology described in Estimation of Energy End-Use Intensities, web site  www.eia.doe.gov/emeu/cbecs/tech_end_use.html.

[12]  The proportion of equipment retiring is inversely related to the equipment life.

[13] Commercial prerinse spray valves are handheld devices used to remove food residue from dishes and flatware before cleaning.

# Industrial Demand Module

The NEMS Industrial Demand Module estimates energy consumption by energy source (fuels and feedstocks) for 15 manufacturing and 6 nonmanufacturing industries. The manufacturing industries are further subdivided into the energy-intensive manufacturing industries and nonenergy-intensive manufacturing industries (Table 6.1). The manufacturing industries are modeled through the use of a detailed process-flow or end-use accounting procedure, whereas the nonmanufacturing industries are modeled with substantially less detail. The petroleum refining industry is not included in the industrial module, as it is simulated separately in the Petroleum Market Module of NEMS. The Industrial Demand Module calculates energy consumption for the four Census Regions (see Figure 5) and disaggregates the energy consumption to the nine Census Divisions based on fixed shares from the State Energy Data System [1].

**Table 6.1. Industry Categories**

| Energy-Intensive Manufacturing | | Nonenergy-Intensive Manufacturing | | Nonmanufacturing Industries | |
|---|---|---|---|---|---|
| Food Products | (NAICS 311) | Metal-Based Durables | | Agricultural Production -Crops | (NAICS 111) |
| | | Fabricated Metal Products | (NAICS 332) | | |
| | | Machinery | (NAICS 333) | | |
| | | Computer and Electronic Products | (NAICS 334) | | |
| | | Electrical Equipment | (NAICS 335) | | |
| | | Transportation Equipment | (NAICS 336) | | |
| Paper and Allied Products | (NAICS 322) | Other Non-Intensive Manufacturing | | Other Agriculture Including Livestock | (NAICS 112-115) |
| | | Wood Products | (NAICS 321) | | |
| | | Plastic and Rubber Products | (NAICS 326) | | |
| | | Balance of Manufacturing | (all remaining NAICS) | | |
| Bulk Chemicals | | | | Coal Mining | (NAICS 2121) |
| Inorganic | (NAICS 32512-32518) | | | | |
| Organic | (NAICS 32511, 32519) | | | | |
| Resins | (NAICS 3252) | | | | |
| Agricultural | (NAICS 3253 | | | | |
| Glass and Glass Products | (NAICS 3272) | | | Oil and Gas Extraction | (NAICS 211) |
| Cement | (NAICS 32731) | | | Metal and Other Nonmetallic Mining | (NAICS 2122-2123) |
| Iron and Steel | (NAICS 3311-3312) | | | Construction | (NAICS 233-235) |
| Aluminum | (NAICS 3313) | | | | |

NAICS = North American Industry Classification System.

Source: Office of Management and Budget, North American Industry Classification System (NAICS) - United States (Springfield, VA, National Technical Information Service).

The energy-intensive industries (food products, paper and allied products, bulk chemicals, glass and glass products, cement, iron and steel, and aluminum) are modeled in considerable detail. Each industry is modeled as three separate but interrelated components consisting of the Process Assembly (PA) Component, the Buildings (BLD) Component, and the Boiler/Steam/Cogeneration (BSC) Component. The BSC Component satisfies the steam demand from the PA and BLD Components. In some industries, the PA Component produces byproducts that are consumed in the BSC Component. For the manufacturing industries, the PA Component is separated into the major production processes or end uses.

Petroleum refining (NAICS 32411) is modeled in detail in the Petroleum Market Module of NEMS, and the projected energy consumption is included in the manufacturing total. Projections of refining energy use, lease and plant fuel, and fuels consumed in cogeneration in the oil and gas extraction industry (NAICS 211) are exogenous to the Industrial Demand Module, but endogenous to the NEMS modeling system.

# Key Assumptions

The NEMS Industrial Demand Module primarily uses a bottom-up process modeling approach. An energy accounting framework traces energy flows from fuels to the industry's output. An important assumption in the development of this system is the use of 2002 baseline Unit Energy Consumption (UEC) estimates based on analysis of the Manufacturing Energy Consumption Survey (MECS) 2002. [2] The UECs represent the energy required to produce one unit of the industry's output. The output may be defined in terms of physical units (e.g., tons of steel) or in terms of the dollar value of shipments.

The industrial module depicts the manufacturing industries (apart from petroleum refining) with a detailed process flow or end use approach. The dominant process technologies are characterized by a combination of unit energy consumption estimates and "technology possibility curves." The technology possibility curve is an exponential growth trend corresponding to a given average annual growth rate, or technology possibility coefficient (TPC). The TPC defines the assumed average annual growth rate of the energy intensity of a process step or an energy end use. The TPCs for new and existing plants vary by industry vintages and process. These assumed rates were developed using professional engineering judgments regarding the energy characteristics, year of availability, and rate of market adoption of new process technologies.

## *Process/Assembly Component*

The PA Component models each major manufacturing production step or end use for the manufacturing industries. The throughput production for each process step is computed, as well as the energy required to produce it. The amount of energy to produce a unit of output is defined as the unit energy coefficient (UEC), another term for the energy intensity of the process. The PA component for the bulk chemical industry was revised for the *AEO2010* and is discussed separately. This section describes the PA component for the rest of the industries.

The module distinguishes the UECs by three vintages of capital stock. The amount of energy consumption reflects the assumption that new vintage stock will consist of state-of-the-art technologies that are more energy efficient than the average efficiency of the existing capital stock. Consequently, the amount of energy required to produce a unit of output using new capital stock is less than that required by the existing capital stock. Capital stock is grouped into three vintages: old, middle, and new. The old vintage consists of capital existing in 2002 and surviving after adjusting for assumed retirements each year (Table 6.2). New production capacity is assumed to be added in a given projection year such that sufficient surviving and new capacity is available to meet the level of an industry's output as determined in the NEMS Regional Macroeconomic Module. Middle vintage capital is that which is added after 2002 up through the year prior to the current projection year.

To simulate technological progress and adoption of more efficient energy technologies, the UECs are adjusted each projection year based on the assumed TPC for each step. The TPCs are derived from assumptions about the relative energy intensity (REI) of productive capacity by vintage (new capacity relative to existing stock in a given year) or over time (new or surviving capacity in 2035 relative to the 2002 stock) (Table 6.3). For example, state-of-the-art additions to mechanical pulping capacity in 2002 are assumed to require only 93.1 percent as much energy as does the average existing plant, so the REI for new capacity in 2002 is 0.931 (see Table 6.3). Over time, the UECs for new capacity are assumed to improve, and the rate of improvement is given by the TPC. The UECs of the surviving 2002 capital stock are also assumed to decrease over time, but not as rapidly as for new capital stock. For example, with mechanical pulping, the TPC for new facilities is -0.012, while the TPC for

**Table 6.2. Retirement Rates**

| Industry | Retirement Rate (percent) | Industry | Retirement Rate (percent) |
|---|---|---|---|
| Food Products | 1.7 | Glass and Glass Products | 1.3 |
| Pulp and Paper | 2.3 | Cement | 1.2 |
| Iron & Steel | | Aluminum | |
| Blast Furnace and Basic Stell Products | 1.5 | Metal-Based Durables | 1.3 |
| Electric Arc Furnace | 1.5 | Other Non-Intensive Manufacturing | 1.3 |
| Coke Ovens | 2.5 | | |
| Other Steel | 2.9 | | |

Note: Except for the Blast Furnace and Basic Steel Products Industry, the retirement rate is the same for each process step or end-use within an industry.

Source: Energy Information Administration, *Model Documentation Report: Industrial Sector Demand Module of the National Energy Modeling System*, DOE/EIA-MO64(2009), (Washington, DC, 2009).

existing facilities is -0.007. Also provided in Table 6.3 are alternative assumptions used to reflect a more optimistic, "high tech" case.

The concepts of REI and TPCs are a means of embodying assumptions regarding new technology adoption in the manufacturing industry and the associated increased energy efficiency of capital without characterizing individual technologies in detail. The approach reflects the assumption that industrial plants will increase in energy efficiency as owners replace old equipment with new, more efficient equipment, add new capacity, or upgrade their energy management practices. The reasons for the increased efficiency are not likely to be directly attributable to technology choice decisions, changing energy prices, or other factors readily subject to modeling. Instead, the module uses the REI and TPC concepts to characterize efficiency trends for bundles of technologies available for major process steps or end use.

There are two exceptions to the general approach in the PA component. The first is for electric motor technology choice implemented for 8 industries to simulate their electric machine drive energy end use. Machine drive electricity consumption in the food industry, the five metal-based durables industries, and the three non-intensive manufacturing industries is calculated by a motor stock model. The beginning stock of motors is modified over the projection horizon as motors are added to accommodate growth in shipments for each sector, as motors are retired and replaced, and as failed motors are rewound. When an old motor fails, an economic choice is made on whether to repair or replace the motor. When a new motor is added, either to accommodate growth or as a replacement, the motor must meet the efficiency standard minimum or a premium efficiency motor. Table 6.4 provides the beginning stock efficiency for seven motor size groups in each of the three industry groups, as well as efficiencies for EPACT minimum and premium motors. [3] As the motor stock changes over the projection horizon, the overall efficiency of the motor population changes as well.

The second exception in the PA component is the Bulk chemicals Sub-model. The methodology is described below.

## *Bulk Chemical Industry*

For the *AEO2010*, a new PA Component module for the bulk chemical industry was implemented. The need to analyze the impacts of high energy prices on feedstock use and also to track some of the chemical products that are highly dependent on energy resources, such as ammonia and ethylene, compelled this change. It is important to note that this model only replaces the PA Component of the bulk chemical energy consumption projections. The BSC and BLD components remain the same for this industry.

Table 6.5 shows the list of the chemical products represented in the model. There are 16 organic, 5 inorganic, 5 resins, and 2 agricultural chemicals, plus four aggregate groups (rest of organic, rest of inorganic, rest of resins, and rest of agricultural chemicals).

## Table 6.3. Coefficients for Technology Possibility Curve for all Industrial Scenarios (applies to all fuels unless specified)

| Industry/Process Unit | Existing Facilities | | | | | New Facilities | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reference REI 2035[1] | HighTech REI 2035[1] | Reference TPC[2](%) | High Tech TPC[2] (%) | REI 2002[3] | Reference REI2035[4] | High Tech REI2035[4] | Reference TPC[2] | High Tech TPC[2] (%) |
| **Food Products** | | | | | | | | | |
| Process Heating | 0.883 | 0.872 | -0.376 | -0.415 | 0.900 | 0.783 | 0.762 | -0.420 | -0.502 |
| Process Heating-Steam | 0.780 | 0.759 | -0.751 | -0.831 | 0.900 | 0.681 | 0.645 | -0.840 | -1.004 |
| Process Cooling-Electricity | 0.854 | 0.840 | -0.476 | -0.526 | 0.850 | 0.733 | 0.712 | -0.446 | -0.533 |
| Process Cooling-Natural Gas | 0.883 | 0.872 | -0.376 | -0.415 | 0.900 | 0.783 | 0.762 | -0.420 | -0.502 |
| Other-Electricity | 0.899 | 0.889 | -0.321 | -0.355 | 0.915 | 0.793 | 0.770 | -0.434 | -0.520 |
| Other-Natural Gas | 0.883 | 0.872 | -0.376 | -0.415 | 0.900 | 0.783 | 0.762 | -0.420 | -0.502 |
| **Paper & Allied Products** | | | | | | | | | |
| Wood Preparation | 0.792 | 0.784 | -0.705 | -0.735 | 0.882 | 0.701 | 0.784 | -0.694 | -0.357 |
| Waste Pulping-Electricity | 0.936 | 0.893 | -0.200 | -0.341 | 0.936 | 0.936 | 0.876 | 0.000 | -0.201 |
| Waste Pulping-Steam | 0.876 | 0.893 | -0.400 | -0.341 | 0.936 | 0.936 | 0.876 | 0.000 | -0.201 |
| Mechanical Pulping-Electricity | 0.800 | 0.805 | -0.674 | -0.655 | 0.931 | 0.622 | 0.805 | -1.214 | -0.439 |
| Mechanical Pulping-Steam | 0.639 | 0.805 | -1.348 | -0.655 | 0.931 | 0.414 | 0.805 | -2.428 | -0.439 |
| Semi-Chemical-Electricity | 0.951 | 0.944 | -0.152 | -0.174 | 0.971 | 0.930 | 0.916 | -0.131 | -0.177 |
| Semi-Chemical-Steam | 0.904 | 0.944 | -0.304 | -0.174 | 0.971 | 0.891 | 0.916 | -0.261 | -0.177 |
| Kraft, Sulfite, Misc. Chemicals | 0.860 | 0.800 | -0.456 | -0.674 | 0.914 | 0.810 | 0.700 | -0365 | -0.805 |
| Kraft, Sulfite, Misc. Chemicals-Steam | 0.739 | 0.800 | -0.912 | -0.674 | 0.914 | 0.718 | 0.700 | -0.730 | -0.805 |
| Bleaching-Electricity | 0.780 | 0.725 | -0.750 | -0.970 | 0.878 | 0.680 | 0.706 | -0772 | -0.659 |
| Bleaching-Steam | 0.607 | 0.725 | -1.500 | -0.970 | 0.878 | 0.525 | 0.706 | -1.544 | -0.659 |
| Paper Making | 0.869 | 0.725 | -0.426 | -0.970 | 0.885 | 0.852 | 0.570 | -0.116 | -1.325 |
| Paper Making-Steam | 0.960 | 0.725 | -0.852 | -0.970 | 0.885 | 0.820 | 0.570 | -0.232 | -1.325 |
| **Glass & Glass Products[5]** | | | | | | | | | |
| Batch Preparation-Electricity | 0,941 | 0.941 | -0.184 | -0.184 | 0.882 | 0.882 | 0.882 | 0.000 | 0.000 |
| Melting/Refining | 0.934 | 0.790 | -0.207 | -0.712 | 0.900 | 0.868 | 0.580 | -0.110 | -1.323 |
| Melting/Refining-Steam | 0.872 | 0.790 | -0.413 | -0.712 | 0.900 | 0.837 | 0.580 | -0.219 | -1.323 |
| Forming | 0.984 | 0.960 | -0.049 | -0.124 | 0.982 | 0.968 | 0.920 | -0.042 | -0.196 |
| Forming-Steam | 0.968 | 0.960 | -0.098 | -0.124 | 0.982 | 0.955 | 0.920 | -0.085 | -0.196 |
| Post-Forming | 0.978 | 0.968 | -0.069 | -0.099 | 0.968 | 0.955 | 0.936 | -0.040 | -0.100 |
| Post-Forming-Steam | 0.955 | 0.968 | -0.138 | -0.099 | 0.968 | 0.943 | 0.936 | -0.079 | -0.100 |
| **Cement** | | | | | | | | | |
| Dry Process | 0.905 | 0.770 | -0.302 | -0.789 | 0.900 | 0.810 | 0.540 | -0.319 | -1.536 |
| Wet Process[6] | 0.944 | 0.879 | -0.173 | -0.389 | NA | NA | NA | NA | NA |
| Wet Process-Steam[6] | 0.892 | 0.830 | -0.347 | -0.563 | NA | NA | NA | NA | NA |
| Finish Grinding-Electricity | 0.975 | 0.830 | -0.077 | -0.563 | 0.950 | 0.950 | 0.660 | 0.000 | -1.098 |
| **Iron and Steel** | | | | | | | | | |
| Coke Oven[6] | 0.935 | 0.825 | -0.205 | -0.581 | 0.902 | 0.869 | 0.635 | -0.133 | -1.058 |
| Coke Oven-Steam[6] | 0.873 | 0.825 | -0.410 | -0.581 | 0.902 | 0.837 | 0.635 | -0.266 | -1.058 |
| BF/BOF | 0.994 | 0.945 | -0.020 | -0.171 | 0.987 | 0.987 | 0.885 | 0.000 | -0.330 |
| BF/BOF-Steam | 0.987 | 0.945 | -0.040 | -0.171 | 0.987 | 0.987 | 0.885 | 0.000 | -0.330 |
| EAF | 0.914 | 0.827 | -0.270 | -0.574 | 0.990 | 0.830 | 0.655 | -0.533 | -1.244 |
| Ingot Casting/Primary Rolling[6] | 1.000 | 1.000 | 0.000 | 0.000 | NA | NA | NA | NA | NA |
| Continuous Casting[7] | 1.000 | 1.000 | 0.000 | 0.000 | 1.000 | 1.000 | 1.000 | 0.000 | 0.000 |
| Hot Rolling[7] | 0.816 | 0.738 | -0.814 | -0.914 | 0.800 | 0.633 | 0.476 | -0.707 | -1.561 |
| Hot Rolling-Steam[7] | 0.665 | 0.738 | -1.229 | -0.914 | 0.800 | 0.500 | 0.476 | -1.414 | -1.561 |
| Cold Rolling[7] | 0.717 | 0.680 | -1.003 | -1.162 | 0.924 | 0.433 | 0.400 | -2.271 | -2.505 |
| Cold Rolling-Steam[7] | 0.512 | 0.680 | -2.006 | -1.162 | 0.924 | 0.199 | 0.400 | -4.541 | -2.505 |
| **Aluminum** | | | | | | | | | |
| Alumina Refining | 0.927 | 0.910 | -0.230 | -0.285 | 0.900 | 0.854 | 0.820 | -0.160 | -0.282 |
| Alumina Refining-Steam | 0.859 | 0.775 | -0.460 | -0.769 | 0.900 | 0.810 | 0.521 | -0.321 | -1.643 |
| Primary Smelting | 0.890 | 0.775 | -0.353 | -0.769 | 0.950 | 0.780 | 0.550 | -0.596 | -1.643 |
| Primary Smelting-Steam | 0.792 | 0.775 | -0.705 | -0.769 | 0.950 | 0.640 | 0.550 | -1.191 | -1.643 |
| Secondary | 0.868 | 0.810 | -0.428 | -0.637 | 0.850 | 0.736 | 0.620 | -0.435 | -0.952 |
| Semi-Fabrication, Steel | 0.893 | 0.721 | -0.342 | -0.986 | 0.900 | 0.736 | 0.447 | -0.410 | -2.098 |
| Semi-Fabrication, Other | 0.918 | 0.802 | -0.259 | -0.666 | 0.950 | 0.836 | 0.605 | -0.387 | -1.358 |

| Industry/Process Unit | Existing Facilities | | | | New Facilities | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reference REI 2035[1] | High Tech REI 2035[1] | Reference TCP[2](%) | High Tech TPC[2] (%) | REI 2002[3] | Reference REI2035[4] | High Tech REI2035[4] | Reference TPC[2] | High Tech TPC[2] (%) |
| **Metal-Based Durables** | | | | | | | | | |
| Fabricated Metals | | | | | | | | | |
| Process Heating | 0.688 | 0.614 | -1.127 | -1.468 | 0.675 | 0.386 | 0.306 | -1.679 | -2.370 |
| Process Cooling-Electricity | 0.622 | 0.545 | -1.427 | -1.820 | 0.638 | 0.352 | 0.277 | -1.784 | -2.493 |
| Process Cooling-Natural | | | | | | | | | |
| Gas | 0.688 | 0.614 | -1.127 | -1.468 | 0.675 | 0.386 | 0.306 | -1.679 | -2.370 |
| Other | 0.688 | 0.614 | -1.127 | -1.468 | 0.675 | 0.386 | 0.306 | -1.679 | -2.370 |
| Other-Electricity | 0.727 | 0.655 | -0.962 | -1.274 | 0.686 | 0.385 | 0.304 | -1737 | -2.439 |
| **Machinery** | | | | | | | | | |
| Process Heating | 0.688 | 0.614 | -1.127 | -1.468 | 0.675 | 0.291 | 0.204 | -2.519 | -3.555 |
| Process Cooling-Electricity | 0.622 | 0.545 | -1.427 | -1.820 | 0.638 | 0.260 | 0.181 | -2.676 | -3.740 |
| Process Cooling-Natural | | | | | | | | | |
| Gas | 0.688 | 0.614 | -1.127 | -1.468 | 0.675 | 0.291 | 0.204 | -2.519 | -3.555 |
| Other | 0.688 | 0.614 | -1.127 | -1.468 | 0.675 | 0.291 | 0.204 | -2.519 | -3.555 |
| Other-Electricity | 0.727 | 0.655 | -0.962 | -1.274 | 0.686 | 0.287 | 0.201 | -2.606 | -3.658 |
| **Computers and Electronics** | | | | | | | | | |
| Process Heating | 0.780 | 0.723 | -0.751 | -0.979 | 0.720 | 0.545 | 0.486 | -0.840 | -1.185 |
| Process Cooling-Electricity | 0.729 | 0.668 | -0.952 | -1.213 | 0.680 | 0.506 | 0.450 | -0.892 | -1.247 |
| Process Cooling-Natural | | | | | | | | | |
| Gas | 0.780 | 0.723 | -0.751 | -0.979 | 0.720 | 0.545 | 0.486 | -0.840 | -1.185 |
| Other | 0.780 | 0.723 | -0.751 | -0.979 | 0.720 | 0.545 | 0.486 | -0.840 | -1.185 |
| Other-Electricity | 0.809 | 0.755 | -0.641 | 0.850 | 0.732 | 0.549 | 0.488 | -0.869 | -1.219 |
| **Electrical Equipment** | | | | | | | | | |
| Process Heating | 0.780 | 0.723 | -0.751 | -0.979 | 0.720 | 0.545 | 0.486 | -0.840 | -1.185 |
| Process Heating-Steam | 0.607 | 0.521 | -1.502 | -1.957 | 0.720 | 0.412 | 0.326 | -1.679 | -2.370 |
| Process Cooling-Electricity | 0.729 | 0.668 | -0.952 | -1.213 | 0.680 | 0.506 | 0.450 | -0.892 | -1.247 |
| Processing Cooling-Natural Gas | 0.780 | 0.723 | -0.751 | -0.979 | 0.720 | 0.545 | 0.486 | -0.840 | -1.185 |
| Other | 0.780 | 0.723 | -0.751 | -0.979 | 0.720 | 0.545 | 0.486 | -0.840 | -1.185 |
| Other-Electricity | 0.809 | 0.755 | -0.641 | -0.850 | 0.732 | 0.549 | 0.488 | -0.869 | -1.219 |
| **Transportation Equipment** | | | | | | | | | |
| Process Heating | 0.840 | 0.797 | -0.526 | -0.685 | 0.765 | 0.612 | 0.559 | -0.672 | -0.948 |
| Process Heating-Steam | 0.705 | 0.634 | -1.052 | -1.370 | 0.765 | 0.490 | 0.407 | -1.343 | -1.896 |
| Process Cooling-Electricity | 0.802 | 0.755 | -0.666 | -0.849 | 0.723 | 0.570 | 0.519 | -0.714 | -0.997 |
| Process Cooling-Natural | | | | | | | | | |
| Gas | 0.840 | 0.797 | -0.526 | -0.685 | 0.765 | 0.612 | 0.559 | -0.672 | -0.948 |
| Other | 0.840 | 0.797 | -0.526 | -0.685 | 0.765 | 0.612 | 0.559 | -0.672 | -0.948 |
| Other-Electricity | 0.862 | 0.821 | -0.449 | -0.595 | 0.778 | 0.618 | 0.563 | -0.695 | -0.975 |
| **Other Non-Intensive Manufacturing** | | | | | | | | | |
| Wood Products | | | | | | | | | |
| Process Heating | 0.688 | 0.617 | -1.127 | -1.452 | 0.630 | 0.360 | 0.287 | -1.679 | -2.358 |
| Process Heating-Steam | 0.471 | 0.378 | -2.253 | -2.903 | 0.630 | 0.204 | 0.128 | -3.358 | -4.716 |
| Process Cooling-Electricity | 0.622 | 0.548 | -1.427 | -1.804 | 0.595 | 0.328 | 0.260 | -1.784 | -2.481 |
| Process Cooling-Natural Gas | 0.688 | 0.617 | -1.127 | -1.452 | 0.630 | 0.360 | 0.287 | -1.679 | -2.358 |
| Other | 0.688 | 0.613 | -1.127 | -1.474 | 0.630 | 0.360 | 0.288 | -1.679 | -2.345 |
| Other-Electricity | 0.727 | 0.568 | -0.962 | -1.698 | 0.641 | 0.359 | 0.281 | -1.737 | -2.464 |

**Table 6.3. Coefficients for Technology Possibility Curve for all Industrial Scenarios (applies to all fuels unless specified) (continued)**

| Industry/Process Unit | Existing Facilities | | | | | New Facilities | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reference REI 2035[1] | Reference REI 2035[1] | High Tech REI2035[1] | Reference TPC[2] (%) | REI 2002[3] | Reference REI2035[4] | High Tech REI2035[4] | Reference TPC[2] | High Tech TPC[2] (%) |
| **Plastic Products** | | | | | | | | | |
| Process Heating | 0.780 | 0.725 | -0.751 | -0.968 | 0.675 | 0.511 | 0.456 | -0.840 | -1.179 |
| Process Heating-Steam | 0.607 | 0.525 | -1.502 | -1.936 | 0.675 | 0.386 | 0.307 | -1.679 | -2.358 |
| Process Cooling-Electricity | 0.729 | 0.671 | -0.952 | -1.203 | 0.638 | 0.474 | 0.422 | -0.892 | -1.241 |
| Process Cooling-Natural Gas | 0.780 | 0.725 | -0.751 | -0.968 | 0.675 | 0.511 | 0.456 | -0.840 | -1.179 |
| Other | 0.780 | 0.722 | -0.751 | -0.983 | 0.675 | 0.511 | 0.457 | -0.840 | -1.172 |
| Other-Electricity | 0.809 | 0.687 | -0.641 | -1.132 | 0.686 | 0.515 | 0.456 | -0.869 | -1.232 |
| **Balance of Manufacturing** | | | | | | | | | |
| Process Heating | 0.646 | 0.569 | -1.315 | -1.694 | 0.675 | 0.335 | 0.251 | -2.099 | -2.948 |
| Process Heating-Steam | 0.415 | 0.321 | -2.629 | -3.387 | 0.675 | 0.164 | 0.091 | -4.198 | -5.895 |
| Process Cooling-Electricity | 0.575 | 0.496 | -1.665 | -2.105 | 0.638 | 0.303 | 0.225 | -2.230 | -3.101 |
| Process Cooling-Natural Gas | 0.646 | 0.569 | -1.315 | -1.694 | 0.675 | 0.335 | 0.251 | -2.099 | -2.948 |
| Other-Natural Gas | 0.646 | 0.564 | -1.315 | -1.719 | 0.675 | 0.335 | 0.253 | -2.099 | -2.931 |

[1]REI 2030 Existing Facilities = Ratio of 2030 energy intensity to average 2002 energy intensity for existing facilities.

[2]TPC = annual rate of change between 2002 and 2030.

[3]REI 2002 New Facilities = For new facilities, the ratio of state-of-the-art energy intensity to average 2002 energy intensity for existing facilities.

[4]REI 2030 New Facilities = Ratio of 2030 energy intensity for a new state-of-the-art facility to the average 2002 intensity for existing facilities.

[5]REI's and TPCs apply to virgin and recycled materials.

[6]No new plants are likely to be built with these technologies.

[7]Net shape casting is projected to reduce the energy requirements for hot and cold rolling rather than for the continuous casting step.

NA = Not applicable.

BF = Blast furnace.

BOF = Basic oxygen furnace.

EAF = Electric arc furnace.

Source: Energy Information Administration, *Model Documentation Report*, *Industrial Sector Demand Module of the National Energy Modeling System*, DOE/EIA-M064(2008) (Washington, DC, 2008).

**Table 6.4. Cost and Performance Parameters for Industrial Motor Choice Model**

| Industrial Sector Horsepower Range | 2002 Stock Efficiency (%) | Premium Efficiency (%) | Premium Cost (2002$) |
|---|---|---|---|
| Food | | | |
| 1 - 5 hp | 86.7 | 89.2 | 601 |
| 6 - 20 hp | 91.2 | 92.5 | 1,338 |
| 21 - 50 hp | 93.0 | 93.8 | 2,585 |
| 51 - 100 hp | 94.0 | 95.3 | 6,290 |
| 101 - 200 hp | 94.6 | 95.2 | 11,430 |
| 201 - 500 hp | 93.6 | 95.4 | 29,991 |
| > 500 hp | 94.1 | 96.2 | 36,176 |
| Metal-Based Durables[1] | | | |
| 1 - 5 hp | 86.7 | 89.2 | 601 |
| 6 - 20 hp | 91.3 | 92.5 | 1,338 |
| 21 - 50 hp | 93.0 | 93.9 | 2,585 |
| 51 - 100 hp | 94.0 | 95.3 | 6,290 |
| 101 - 200 hp | 94.6 | 95.2 | 11,430 |
| 201 - 500 hp | 93.7 | 95.4 | 29,991 |
| > 500 hp | 94.1 | 96.2 | 36,176 |
| Other Non-Intensive Manufacturing[2] | | | |
| 1 - 5 hp | 86.7 | 89.2 | 601 |
| 6 - 20 hp | 91.3 | 92.5 | 1,338 |
| 21 - 50 hp | 93.0 | 93.9 | 2,585 |
| 51 - 100 hp | 94.0 | 95.3 | 6,290 |
| 101 - 200 hp | 94.6 | 95.2 | 11,430 |
| 201 - 500 hp | 93.7 | 95.4 | 29,991 |
| > 500 hp | 94.1 | 96.2 | 36,176 |

[1] The Metal-Based Durables group includes five sectors that are modeled separately: Fabricated Metal Products; Machinery; Computer and Electronic Products; Electrical Equipment, Appliances, and Components; and Transportation Equipment

[2] The Other Non-Intensive Manufacturing group includes three sectors that are modeled separately: Wood Products; Plastics and Rubber Products; and Balance of Manufacturing.

Source: Energy Information Administration, *Model Documentation Report, Industrial Sector Demand Module of the National Energy Modeling System*, DOE/EIA-M064(2009) (Washington, DC, 2009).

Note: The efficiencies listed in this table are operating efficiencies based on average part-loads. Because the average part-load is not the same for all industries, the listed efficiencies for the different motor sizes vary across industries.

**Table 6.5. Chemical Products in the Bulk Chemical Industry Model**

| Organic Chemicals | Inorganic Chemicals | Plastic Resins | Agricultural Chemicals |
|---|---|---|---|
| Ethylene | Acetylene | Polyvinyl Chloride | Ammonia |
| Propylene | Chlorine | Polyethylene | Phosphoric Acid |
| Butadiene | Oxygen | Polystyrene | Other Agricultural Chemicals |
| Acetic Acid | Sulfuric Acid | Styrene-Butadiene-Rubber | |
| Acrylonitrite | Hydrogen | Vinyl Chloride | |
| Ethylbenzene | Other Inorganic Chemicals | Other Resins | |
| Ethylene Dichloride | | | |
| Ethylene Glycol | | | |
| Ethylene Oxide | | | |
| Formaldehyde | | | |
| Styrene | | | |
| Vinyl Acetate | | | |
| Ethanol | | | |
| On-Purpose Propylene (and byproduct ethylene) | | | |
| Other Organic Chemicals | | | |

The choice of chemicals included in the model is driven by several factors, including relatively large production volumes, high energy intensity, expected high production growth, and/or high energy and feedstock consumption.

The bulk chemical model has several components and these are briefly discussed below.

## 2002 Base Year Data

This component provides a picture of the bulk chemical industry's production, processes, and energy requirements for 2002. Data are provided for each chemical in Table 6.5.

## Chemical Production Component

This component forecasts chemical production for each chemical in Table 6.5. In the bulk chemical industry, there is significant interplay among basic chemicals, intermediate chemicals, and final chemical products. A good understanding of the relationships among these chemicals helped in the development of the methodology used to forecast the production levels of each chemical. To develop the models or equations that forecast chemical production, the relationships between the chemicals were considered. In addition, the relationships between the production levels of the chemicals and dollar value of output (or shipments) of the chemical industry and other industries that use the chemicals, and other drivers such as gross domestic product (GDP), energy prices, and U.S population were also considered.

## Chemical Process Component

This component forecasts processes for each chemical in Table 6.5. Besides the level of chemical production, a major driver of energy consumption in the bulk chemical industry is the process used to produce a chemical product. Table 6.6 shows the industrial processes used to produce each chemical represented in the model.

The unit energy requirements of steam, electricity, and fuel for each process listed in Table 6.6 are provided for 14 categories of energy services: Process water cooling, pumping, compression, motive force, direct clean heat, indirect heat, indirect drying, concentration, distillation, electrolysis, feedstocks, reforming, fuel from feed [4], and byproduct adjustment [5].

**Table 6.6. Chemical Products in the Bulk Chemical Industry Model**

| Chemicals | Manufacturing Processes |
|---|---|
| **A. Organic Chemicals** | |
| Ethylene | Prolysis of ethane |
| | Prolysis of propane |
| | Pyrolysis of gas oil |
| | Pyrolysis of naphtha |
| | Pyrolysis of butane |
| | Biomass to ethylene conversion |
| Propylene | Pyrolysis of ethane |
| | Pyrolysis of propane |
| | Pyrolysis of gas oil |
| | Pyrolysis of naphtha |
| | Pyrolysis of butane |
| Butadiene | Pyrolysis of ethane |
| | Pyrolysis of propane |
| | Pyrolysis of gas oil |
| | Pyrolysis of naphtha |
| | Pyrolysis of butane |
| | Catalytic dehydrogenation of butane |
| | Catalytic dehydrogenation of n-butane |
| Acetic Acid | N-butane oxidation |
| | Methanol carbonylation |
| | Biomass Fermentation |
| Acrylontrile | Ammoxidation of propylene |
| Ethylbenzene | Alkylation of benzene with ethylene |
| Ethylene Dichloride | Catalytic oxychlorination of ethylene |
| | direct Catalytic chlorination of ethylene |
| Ethylene Glycol | Hydration of ethylene oxide |
| | Biiomass to EG conversion |
| Ethylene Oxide | Catalytic oxidation of ethylene |
| Formaldehyde | Catalytic oxidation of methanol (silver) |
| | Catalytic oxidation of methanol (mixed) |
| | Dehydrogenation of methanol (silver) |
| Methanol | LP cat of reform natural gas |
| | LP synthesis from partial oxidation of resid |
| | HP cat conversion of synthesis gas |
| | Coal to methanol conversion |
| | Biomass to methanol conversion |
| Styrene | Catalytic dehydrogenation of ethylbenzene |
| | Ethylbenzene hydroperoxidation |
| Vinyl Acetate | Catalytic oxyacetylation of ethylene |
| | Acetic acid and acetylene |
| Ethanol (excludes wet milling) | Dry milling |
| | Ethylene hydration |
| On-Purpose Propylene (and byproduct ethylene) | Generic Process - On purpose Propylene |
| Other Organic Chemicals | Generic Process - Organic |

**Table 6.6. Chemical Products in the Bulk Chemical Industry Model (cont.)**

| Chemicals | Manufacturing Processes |
|---|---|
| **B. Inorganic Chemicals** | |
| Acetylene | Partial oxidation of methane |
| | Crude oil submerged flame |
| Chlorine | Diaphragm cell |
| | Mercury cell |
| | Membrane cell |
| Oxygen | Air liquefaction/Refrigeration |
| Sulfuric Acid | Contact process |
| Hydrogen | Steam methane reforming - natural gas |
| | Coal gasification |
| | Biomass gasification |
| | Electrolysis |
| Other Inorganic Chemicals | Generic Process - Inorganic |
| **C. Plastics Resins** | |
| Polyvinyl Chloride | Suspension process |
| Polyethylene | Slurry process |
| | Solution process |
| | Emulsification process |
| Polystyrene | Mass Polymerization of Styrene |
| Styrene-Butadiene-Rubber | Emulsification process |
| | Solution-polymerized Solid rubber |
| Vinyl Chloride | Pyrolysis of Ethylene dichloride |
| Other Plastic Resins | Generic Process - Plastic Resins |
| **D. Agricultural Chemicals** | |
| Ammonia | Catalytic synthesis of methane |
| | Partial oxidation of coal |
| | Coal gasification |
| | Petroleum coke gasification |
| Phosphoric Acid | Wet process |
| | Electric furnace process |
| Other Agricultural Chemicals | Generic Process - Agricultural chemicals |

Because the choice of processes is not generally driven just by energy prices, the shares of processes used to produce a chemical is mostly exogenous to the model. The exceptions are those chemicals and their processes that use significant amounts of energy feedstocks, such as ethylene, propylene and butadiene. These three basic chemicals are sensitive to energy prices, and as such, the model captures the feedstock switching response to changing energy prices. There are other chemicals in which only one process is used for its production (at an industrial-scale). For these chemicals, the process is assigned 100 percent.

As indicated above, three chemicals, ethylene, propylene, and butadiene are modeled with more detail than the other chemicals in the model. More detailed descriptions of the representations of process or feedstock choices among these chemicals are discussed below.

### Ethylene/Propylene/Butadiene Feedstocks Component

This component forecasts ethylene/propylene/butadiene feedstocks consumption. The primary feedstocks used to produce ethylene, propylene, and butadiene, are natural gas liquids (NGLs) (ethane, propane, butane) and petrochemical feedstocks (gas oil, naphtha) [6]. Biomass can be a potential raw material source, although it is assumed that there will be no-biomass-based capacity over the projection period because of economic barriers. The type of feedstock not only determines the feedstocks usage but also the energy for heat and power requirements to produce the chemicals. The main approach used to forecast the shares of ethylene, propylene and butadiene feedstocks is the use of linear regression equations relating the feedstock shares with oil prices and gas prices. Naphthas and gas oils are oil products and ethane, propane and butane are natural gas liquids. Thus, the relative values of natural gas and oil prices are key drivers for the choice between using oil-based feedstocks and gas-based ones.

### Energy Consumption Component

This component calculates the energy requirements (machine drive, non-machine drive electricity, direct process heat, feedstocks, steam) for each chemical/chemical group in Table 6.5. Unit energy (steam, fuel, electricity) requirements for each of the 14 energy services listed above are assumed to change as energy prices change. The calculated total steam consumption is passed to the BSC Component.

### Buildings Component

The total buildings energy demand by industry for each region is a function of regional industrial employment and output. Building energy consumption was estimated for building lighting, HVAC (heating,ventilation, and air conditioning), facility support, and onsite transportation. Space heating was further divided to estimate the amount provided by direct combustion of fossil fuels and that provided by steam (Table 6.7). Energy consumption in the BLD Component for an industry is estimated based on regional employment and output growth for that industry using the 2002 MECS as a basis.

### Boiler/Steam/Combined Heat and Power Component

The steam demand and byproducts from the PA and BLD Components are passed to the BSC Component, which applies a heat rate and a fuel share equation (Table 6.8) to the boiler steam requirements to compute the required energy consumption.

The boiler fuel shares apply only to the fuels that are used in boilers for steam-only applications. Fuel shares for the portion of the steam demand associated with combined heat and power (CHP) is assumed fixed. Some fuel switching for the remainder of the boiler fuel use is assumed and is calculated with a logit sharing equation where fuels shares are a function of fuel prices. The equation is calibrated to 2002 so that the 2002 fuel shares are produced for the relative prices that prevailed in 2002.

The byproduct fuels, production of which are estimated in the PA Component, are assumed to be consumed without regard to price, independent of purchased fuels. The boiler fuel share equations and calculations are based on the 2002 MECS.

### Combined Heat and Power

CHP plants, which are designed to produce both electricity and useful heat, have been used in the industrial sector for many years. The CHP estimates in the module are based on the assumption that the historical relationship between industrial steam demand and CHP will continue in the future, and that the rate of additional CHP penetration will depend on the economics of retrofitting CHP plants to replace steam generated from existing non-CHP boilers. The technical potential for CHP is primarily based on supplying thermal requirements. Capacity additions are then determined by the interaction of payback periods CHP retrofit investment, and market penetration rates for investments with given payback periods. Assumed installed costs for the CHP systems are given in Table 6.9.

**Table 6.7. 2002 Building Component Energy Consumption**
(trillion Btu)

| Industry | Region | Lighting Electricity Consumption | HVAC Electricity Consumption | HVAC Natural Gas Consumption | HVAC Steam Consumption | Facility Support Total Consumptiion | Onsite Transportation Total Consumption |
|---|---|---|---|---|---|---|---|
| | | | | **Building Use and Energy Source** | | | |
| Food Products | 1 | 1.6 | 1.7 | 4.0 | 2.0 | 1.0 | 0.9 |
| | 2 | 7.2 | 7.7 | 16.9 | 4.4 | 1.2 | 3.5 |
| | 3 | 5.8 | 6.2 | 12.1 | 6.0 | 2.1 | 2.7 |
| | 4 | 2.5 | 2.7 | 7.5 | 3.7 | 1.8 | 1.5 |
| Paper & Allied Products | 1 | 1.9 | 2.0 | 3.6 | 0.0 | 0.9 | 0.5 |
| | 2 | 3.5 | 3.7 | 6.4 | 0.0 | 1.2 | 0.9 |
| | 3 | 7.1 | 7.5 | 14.0 | 0.0 | 2.6 | 1.8 |
| | 4 | 2.9 | 3.1 | 3.4 | 0.0 | 0.7 | 0.7 |
| Bulk Chemicals | 1 | 1.4 | 1.7 | 1.3 | 0.0 | 0.8 | 0.6 |
| | 2 | 3.1 | 3.7 | 2.3 | 0.0 | 1.0 | 1.2 |
| | 3 | 13.0 | 15.7 | 16.4 | 0.0 | 6.2 | 6.3 |
| | 4 | 0.9 | 1.1 | 1.1 | 0.0 | 0.2 | 0.4 |
| Glass & Glass Products | 1 | 0.3 | 0.5 | 2.2 | 0.0 | 0.5 | 0.5 |
| | 2 | 0.6 | 0.9 | 2.1 | 0.0 | 0.1 | 0.1 |
| | 3 | 0.8 | 1.3 | 3.3 | 0.0 | 0.8 | 0.9 |
| | 4 | 0.2 | 0.4 | 0.9 | 0.0 | 0.1 | 0.1 |
| Cement | 1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.7 | 0.1 |
| | 2 | 0.2 | 0.2 | 0.4 | 0.0 | 1.5 | 0.2 |
| | 3 | 0.4 | 0.4 | 0.6 | 0.0 | 1.5 | 0.3 |
| | 4 | 0.2 | 0.2 | 0.3 | 0.0 | 1.4 | 0.1 |
| Iron & Steel | 1 | 0.6 | 0.7 | 3.4 | 0.0 | 0.8 | 0.6 |
| | 2 | 2.1 | 2.6 | 8.1 | 0.0 | 6.5 | 1.6 |
| | 3 | 2.0 | 2.5 | 3.2 | 0.0 | 0.9 | 0.9 |
| | 4 | 0.4 | 0.4 | 0.3 | 0.0 | 0.0 | 0.1 |
| Aluminum | 1 | 0.3 | 0.4 | 0.7 | 0.0 | 0.1 | 0.2 |
| | 2 | 0.8 | 1.1 | 1.6 | 0.0 | 0.1 | 0.6 |
| | 3 | 1.5 | 2.1 | 3.7 | 0.0 | 1.2 | 1.2 |
| | 4 | 0.3 | 0.4 | 6.5 | 0.0 | 0.0 | 0.2 |
| Metal-Based Durables | | | | | | | |
| Fabricated Metal Products | 1 | 2.2 | 2.4 | 7.4 | 2.1 | 0.2 | 0.7 |
| | 2 | 7.3 | 7.8 | 25.1 | 7.1 | 1.0 | 2.1 |
| | 3 | 5.2 | 5.6 | 15.2 | 4.3 | 1.4 | 1.5 |
| | 4 | 1.4 | 1.5 | 3.4 | 1.0 | 0.0 | 0.4 |
| Machinery | 1 | 1.9 | 2.6 | 4.7 | 2.4 | 0.1 | 0.5 |
| | 2 | 5.8 | 7.7 | 18.7 | 9.4 | 0.8 | 1.7 |
| | 3 | 3.7 | 5.0 | 6.9 | 3.5 | 0.4 | 0.9 |
| | 4 | 1.0 | 1.4 | 2.3 | 1.2 | 0.0 | 0.3 |
| Computers & Electronic Products | 1 | 5.2 | 11.3 | 7.1 | 8.9 | 0.2 | 3.1 |
| | 2 | 2.5 | 5.3 | 4.1 | 5.1 | 0.2 | 1.6 |
| | 3 | 4.2 | 9.2 | 2.7 | 3.3 | 0.1 | 2.4 |
| | 4 | 5.9 | 12.8 | 8.0 | 10.0 | 0.2 | 3.5 |

**Table 6.7.  2002 Building Component Energy Consumption (cont.)**

(trillion Btu)

| Industry | Region | Lighting Electricity Consumption | HVAC Electricity Consumption | HVAC Natural Gas Consumption | HVAC Steam Consumption | Facility Support Total Consumptiion | Onsite Transportation Total Consumption |
|---|---|---|---|---|---|---|---|
| | | | Building Use and Energy Source | | | | |
| Electrical Equipment | 1 | 0.9 | 1.2 | 3.0 | 1.3 | 0.1 | 0.2 |
| | 2 | 2.3 | 3.0 | 5.7 | 2.4 | 0.2 | 0.5 |
| | 3 | 2.8 | 3.7 | 5.5 | 2.3 | 0.9 | 0.6 |
| | 4 | 0.4 | 0.5 | 1.6 | 0.7 | 0.1 | 0.2 |
| Transportation Equipment | 1 | 2.2 | 2.8 | 6.6 | 0.9 | 0.1 | 0.7 |
| | 2 | 14.7 | 18.6 | 36.9 | 5.2 | 1.6 | 4.7 |
| | 3 | 7.5 | 9.5 | 14.5 | 2.0 | 1.1 | 2.3 |
| | 4 | 2.5 | 3.2 | 5.8 | 0.8 | 0.1 | 0.8 |
| Other Non-Intensive Manufacturing | | | | | | | |
| Wood Products | 1 | 0.3 | 0.3 | 0.7 | 1.1 | 1.7 | 0.3 |
| | 2 | 0.8 | 0.8 | 2.1 | 3.3 | 1.3 | 0.4 |
| | 3 | 2.9 | 2.9 | 3.7 | 5.8 | 4.0 | 1.2 |
| | 4 | 1.3 | 1.3 | 2.2 | 3.5 | 2.6 | 0.6 |
| Plastic Products | 1 | 2.1 | 2.6 | 3.1 | 0.0 | 0.9 | 0.8 |
| | 2 | 5.5 | 6.7 | 10.0 | 0.0 | 1.0 | 2.1 |
| | 3 | 6.0 | 7.3 | 12.4 | 0.0 | 1.1 | 2.4 |
| | 4 | 1.2 | 1.5 | 1.8 | 0.0 | 0.0 | 0.4 |
| Balance of Manufacturing | 1 | 6.9 | 9.7 | 7.0 | 0.0 | 1.6 | 2.1 |
| | 2 | 16.0 | 22.4 | 31.3 | 0.0 | 2.0 | 6.2 |
| | 3 | 26.2 | 36.8 | 62.4 | 0.0 | 2.9 | 11.3 |
| | 4 | 7.8 | 10.9 | 16.7 | 0.0 | 3.5 | 3.1 |

HVAC = Heating, Ventilation, Air Conditioning.

Source: Energy Information Administration, *Model Documentation Report: Industrial Demand Module of the National Energy Modeling System*, DOE/EIA-M064(2009), (Washington, DC,  2009).

**Table 6.8.  2002 Boiler Fuel Consumption and Logit Parameter**
(trillion Btu)

| Industry | Region | Alpha | Natural Gas | Coal | Oil | Renewables |
|---|---|---|---|---|---|---|
| Food Products | 1 | -2.0 | 28 | 2 | 5 | 2 |
| | 2 | -2.0 | 125 | 154 | 4 | 15 |
| | 3 | -2.0 | 86 | 10 | 3 | 33 |
| | 4 | -2.0 | 53 | 13 | 4 | 6 |
| Paper & Allied Products | 1 | -2.0 | 56 | 28 | 25 | 87 |
| | 2 | -2.0 | 64 | 75 | 13 | 103 |
| | 3 | -2.0 | 157 | 97 | 61 | 864 |
| | 4 | -2.0 | 48 | 14 | 4 | 164 |
| Bulk Chemicals | 1 | -2.0 | 43 | 3 | 56 | 0 |
| | 2 | -2.0 | 98 | 34 | 46 | 0 |
| | 3 | -2.0 | 685 | 194 | 271 | 0 |
| | 4 | -2.0 | 50 | 1 | 3 | 0 |
| Glass & Glass Products | 1 | -2.0 | 0 | 0 | 6 | 2 |
| | 2 | -2.0 | 1 | 0 | 0 | 1 |
| | 3 | -2.0 | 1 | 0 | 9 | 1 |
| | 4 | -2.0 | 0 | 0 | 0 | 0 |
| Cement | 1 | -2.0 | 0 | 1 | 0 | 0 |
| | 2 | -2.0 | 0 | 2 | 0 | 0 |
| | 3 | -2.0 | 0 | 3 | 0 | 0 |
| | 4 | -2.0 | 0 | 2 | 0 | 0 |
| Iron & Steel | 1 | -2.0 | 10 | 7 | 4 | 0 |
| | 2 | -2.0 | 24 | 1 | 67 | 0 |
| | 3 | -2.0 | 9 | 0 | 22 | 0 |
| | 4 | -2.0 | 1 | 0 | 10 | 0 |
| Aluminum | 1 | -2.0 | 2 | 0 | 0 | 1 |
| | 2 | -2.0 | 5 | 0 | 0 | 0 |
| | 3 | -2.0 | 10 | 0 | 0 | 8 |
| | 4 | -2.0 | 2 | 0 | 0 | 0 |
| Fabricated Metal Products | 1 | -2.0 | 2 | 0 | 0 | 2 |
| | 2 | -2.0 | 7 | 0 | 1 | 2 |
| | 3 | -2.0 | 5 | 0 | 0 | 0 |
| | 4 | -2.0 | 1 | 0 | 0 | 0 |
| Machinery | 1 | -2.0 | 2 | 0 | 0 | 1 |
| | 2 | -2.0 | 9 | 1 | 0 | 1 |
| | 3 | -2.0 | 3 | 0 | 0 | 0 |
| | 4 | -2.0 | 1 | 0 | 0 | 0 |

**Table 6.8. 2002 Boiler Fuel Consumption and Logit Parameter (cont.)**
   (trillion Btu)

| Industry | Region | Alpha | Natural Gas | Coal | Oil | Renewables |
|---|---|---|---|---|---|---|
| Computers and Electronic Products | 1 | -2.0 | 10 | 0 | 2 | 0 |
| | 2 | -2.0 | 5 | 0 | 0 | 0 |
| | 3 | -2.0 | 4 | 0 | 0 | 0 |
| | 4 | -2.0 | 11 | 0 | 0 | 0 |
| Electrical Equipment | 1 | -2.0 | 1 | 0 | 0 | 0 |
| | 2 | -2.0 | 2 | 0 | 0 | 0 |
| | 3 | -2.0 | 2 | 0 | 0 | 0 |
| | 4 | -2.0 | 1 | 0 | 0 | 0 |
| Transportation Equipment | 1 | -2.0 | 5 | 8 | 3 | 8 |
| | 2 | -2.0 | 31 | 0 | 1 | 11 |
| | 3 | -2.0 | 12 | 2 | 2 | 2 |
| | 4 | -2.0 | 5 | 0 | 0 | 1 |
| Wood Products | 1 | -2.0 | 1 | 0 | 0 | 11 |
| | 2 | -2.0 | 4 | 0 | 0 | 20 |
| | 3 | -2.0 | 7 | 1 | 1 | 142 |
| | 4 | -2.0 | 4 | 0 | 0 | 56 |
| Plastic Products | 1 | -2.0 | 6 | 2 | 2 | 1 |
| | 2 | -2.0 | 21 | 20 | 1 | 1 |
| | 3 | -2.0 | 24 | 0 | 4 | 2 |
| | 4 | -2.0 | 4 | 0 | 0 | 0 |
| Balance of Manufacturing | 1 | -2.0 | 15 | 9 | 43 | 8 |
| | 2 | -2.0 | 68 | 50 | 16 | 3 |
| | 3 | -2.0 | 137 | 54 | 54 | 7 |
| | 4 | -2.0 | 35 | 7 | 1 | 2 |

Alpha: User-specified.

Source: Energy Information Administration, *Model Documentation Report: Industrial Sector Demand Module of the National Energy Modeling System*, DOE/EIA-064(2009), (Washington, DC,  2009).


**Table 6.9.  Cost Characteristics of Industrial CHP Systems**

| System | Size (kilowatts) | Installed Cos($2005 per kilowatt)[1] | | |
|---|---|---|---|---|
| | | Reference 2005 | Reference 2035 | High Tech 2035 |
| Engine | 1000 | 1373 | 989 | 927 |
| | 3000 | 1089 | 929 | 918 |
| Gas Turbine | 3000 | 1530 | 1265 | 1036 |
| | 5000 | 1180 | 979 | 903 |
| | 10000 | 1104 | 959 | 895 |
| | 25000 | 930 | 813 | 779 |
| | 40000 | 808 | 743 | 728 |
| Combined Cycle | 100000 | 846 | 787 | 768 |

[1]Costs are given in 2005 dollars in original source document.

Source:  Energy Information Administration, *Model Documentation Report: Industrial Sector Demand Module of the National Energy Modeling System,* DOE/EIA-MO64(2009) (Washington, DC, 2009).

# Legislation and Regulations

## Energy Improvement and Extension Act of 2008

Under EIEA2008 Title I, "Energy Production Incentives," Section 103 provides an Investment Tax Credit (ITC) for qualifying Combined Heat and Power (CHP) systems placed in service before January 1, 2017. Systems with up to 15 megawatts of electrical capacity qualify for an ITC up to 10 percent of the installed cost. For systems between 15 and 50 megawatts, the percentage tax credit declines linearly with the capacity, from 10 percent to 3 percent. To qualify, systems must exceed 60-percent fuel efficiency, with a minimum of 20 percent each for useful thermal and electrical energy produced. The provision was modeled in *AEO2010* by adjusting the assumed capital cost of industrial CHP systems to reflect the applicable credit.

## The Energy Independence and Security Act of 2007

Under EISA2007, the motor efficiency standards established under the Energy Policy Act of 1992 (EPACT) are superseded for purchases made after 2011. Section 313 of EISA2007 increases or creates minimum efficiency standards for newly manufactured, general purpose electric motors. The efficiency standards are raised for general purpose, integral-horsepower induction motors with the exception of fire pump motors. Minimum standards were created for seven types of poly-phase, integral-horsepower induction motors and NEMA design "B" motors (201-500 horsepower) that were not previously covered by EPACT standards. The industrial module's motor efficiency assumptions reflect the EISA2007 efficiency standards for new motors added after 2011.

## Energy Policy Act of 1992 (EPACT)

EPACT contains several implications for the industrial module. These implications concern efficiency standards for boilers, furnaces, and electric motors. The industrial module uses heat rates of 1.25 (80 percent efficiency) and 1.22 (82 percent efficiency) for gas and oil burners, respectively. These efficiencies meet the EPACT standards. EPACT mandates minimum efficiencies for all motors up to 200 horsepower purchased after 1998. The choices offered in the motor efficiency assumptions are all at least as efficient as the EPACT minimums.

## Clean Air Act Amendments of 1990 (CAAA90)

The CAAA90 contains numerous provisions that affect industrial facilities. Three major categories of such provisions are as follows: process emissions, emissions related to hazardous or toxic substances, and SO2 emissions.

Process emissions requirements were specified for numerous industries and/or activities (40 CFR 60). Similarly, 40 CFR 63 requires limitations on almost 200 specific hazardous or toxic substances. These specific requirements are not explicitly represented in the NEMS industrial model because they are not directly related to energy consumption projections.

Section 406 of the CAAA90 requires the Environmental Protection Agency (EPA) to regulate industrial $SO_2$ emissions at such time that total industrial $SO_2$ emissions exceed 5.6 million tons per year (42 USC 7651). Since industrial coal use, the main source of $SO_2$ emissions, has been declining, EPA does not anticipate that specific industrial $SO_2$ regulations will be required (Environmental Protection Agency, National Air Pollutant Emission Trends: 1990-1998, EPA-454/R-00-002, March 2000, Chapter 4). Further, since industrial coal use is not projected to increase, the industrial cap is not expected be a factor in industrial energy consumption projections. (Emissions due to coal-to-liquids CHP plants are included with the electric power sector because they are subject to the separate emission limits of large electricity generating plants.)

# Industrial Alternative Cases

## *Technology Cases*

The *high technology case* assumes earlier availability, lower costs, and higher efficiency by more advanced equipment, based on engineering judgments and research compiled by Focis Associates in a 2005 study for EIA (Tables 6.3 and 6.9). [7]    The *high technology case* also assumes that the rate at which biomass byproducts will be recovered from industrial processes increases from 0.1 percent per year to 0.7 percent per year.   The availability of additional biomass leads to an increase in biomass-based cogeneration. Changes in aggregate energy intensity can result both from changing equipment and production efficiency and from changes in the composition of industrial output.  Since the composition of industrial output remains the same as in the reference case,  delivered energy intensity declines by 1.4 percent annually compared with the reference case, in which delivered energy intensity is projected to decline 1.2 percent  annually.

The *2010 technology case* holds the energy efficiency of plant and equipment constant at the 2010 level over the projection.  Both technology cases were run with only the Industrial Demand Module rather than as a fully integrated NEMS  run, (i.e., the other demand models and the supply models of NEMS were not executed). Consequently, no potential feedback effects from energy market interactions were captured.

*AEO2010* also includes an *integrated high technology case*, which combines the *high technology case* of the four end-use demand sectors, the electricity *low fossil technology case*, the *low nuclear cost case*, and the *low renewable technology case*.

The *low renewable technology case* assumes that the rate at which biomass byproducts will be recovered from industrial processes increases from 0.1 percent per year to 1.4 percent per year.  The availability of additional biomass leads to an increase in biomass-based CHP.

# Notes and Sources

[1] Energy Information Administration, State Energy Data System, based on energy consumption by state through 20075, as downloaded in August, 2009, from www.eia.doe.gov/emeu/states/_seds.html.

[2] Energy Information Administration, Manufacturing Energy Consumption Survey, web site www.eia.doe.gov/emeu/mecs/mecs2002/data02/shelltables.html.

[3] U.S., Department of Energy(2007). Motor Master+ 4.0 software database; available online: http://www1.eere.energy.gov/industry/bestpractices/software.html#mm.

[4] Fuel from Feed represents the heat (essentially fuel) from the oxidation of excess feedstocks.

[5] Byproduct Adjustment represents recoverable byproduct heat.

[6] In NEMS, NGLs are classified as Liquefied Petroleum Gas (LPG).

[7] Energy Information Administration, Industrial Technology and Data Analysis Supporting the NEMS Industrial Model (Focis Associates, October 2005).

# Transportation Demand Module

The NEMS Transportation Demand Module estimates energy consumption across the nine Census Divisions (see Figure 5) and over ten fuel types. Each fuel type is modeled according to fuel-specific technology attributes applicable by transportation mode. Total transportation energy consumption is the sum of energy use in eight transport modes: light-duty vehicles (cars and light trucks), commercial light trucks (8,501-10,000 lbs gross vehicle weight), freight trucks (>10,000 lbs gross vehicle weight), buses, freight and passenger aircraft, freight and passenger rail,  freight shipping, and miscellaneous transport such as recreational boating. Light-duty vehicle fuel consumption is further subdivided into personal usage and commercial fleet consumption.

## Key Assumptions

### *Light-Duty Vehicle Assumptions*

The light-duty vehicle Manufacturers Technology Choice Model (MTCM) includes 63 fuel saving technologies  with  data specific  to cars and light trucks (Tables 7.1  and  7.2) including incremental fuel economy improvement, incremental cost, first year of introduction, and fractional horsepower change.

The vehicle sales share module holds the share of vehicle sales by manufacturers constant  within a vehicle size class at 2007 levels based on National Highway Traffic and Safety Administration data. [1] EPA size class sales shares are projected as a function of income per capita, fuel prices, and average predicted vehicle prices based on endogenous calculations within the MTCM. [2]

The MTCM utiizes 63 new technologies for each size class and manufacturer based on the cost-effectiveness of each technology and an initial availability year.  The discounted stream of  fuel savings is compared to the marginal cost of each technology. The fuel economy module assumes the following:

- The economic effectiveness of all fuel technologies are evaluated on the basis of a 3-year payback period using a real discount rate of 15 percent.

- Fuel economy standards reflect current law through model year 2011. For model years 2012 through 2016, fuel econony standards reflect NHTSA and EPA's proposed standards.  For model years 2017 through 2020, the standards reflect EIA assumed increases that ensure a light vehicle combined fuel economy of 35 mpg is achieved by model 2020.  For model years 2021 though 2030, fuel economy standards are held constant at model year 2020 levels with fuel economy improvements still possible based on an economic cost benefit analysis only.

- Expected future fuel prices are calculated based on an extrapolation of the growth rate between a five year moving average of fuel price 3 years and 4 years prior to the present year.  This assumption is founded upon an assumed lead time of 3 to 4 years to significantly modify the vehicles offered by a manufacturer.

# Table 7.1. Standard Technology Matrix For Cars[1]

| | Fractional Fuel Efficiency Change | Incremental Cost (1990$) | Incremental Cost ($/Unit Wt.) | Incremental Weight (Lbs.) | Incremental Weight (Lbs./Unit Wt.) | Introduction Year | Fractional Horse-power Change |
|---|---|---|---|---|---|---|---|
| Unit Body Construction | 4 | 100 | 0 | 0 | -6 | 1980 | 0 |
| Material Substitution II | 3.3 | 0 | 0.4 | 0 | -5 | 1990 | 0 |
| Material Substitution III | 6.6 | 0 | 0.6 | 0 | -10 | 1998 | 0 |
| Material Substitution IV | 9.9 | 0 | 0.9 | 0 | -15 | 2006 | 0 |
| Material Substitution V | 13.2 | 0 | 1.2 | 0 | -20 | 2014 | 0 |
| Drag Reduction II | 1.5 | 16 | 0 | 0 | 0 | 1988 | 0 |
| Drag Reduction III | 3.0 | 32 | 0 | 0 | 0.2 | 1992 | 0 |
| Drag Reduction IV | 4.2 | 45 | 0 | 0 | 0.5 | 2000 | 0 |
| Drag Reduction V | 5.0 | 53.5 | 0 | 0 | 1 | 2010 | 0 |
| Roll-Over Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2004 | 0 |
| Side Impact Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2004 | 0 |
| Adv Low Loss Torque Converter | 2 | 25 | 0 | 0 | 0 | 1999 | 0 |
| Early Torque Converter Lockup | 0.5 | 25.6 | 0 | 0 | 0 | 2002 | 0 |
| Aggressive Shift Logic | 1.5 | 30.5 | 0 | 0 | 0 | 1999 | 0 |
| 4-Speed Automatic | 4.5 | 285 | 0 | 10 | 0 | 1980 | 0 |
| 5-Speed Automatic | 2.5 | 106.5 | 0 | 20 | 0 | 1995 | 0 |
| 6-Speed Automatic | 2.9 | 259 | 0 | 30 | 0 | 2003 | 0 |
| 6-Speed Manual | 0.5 | 91.4 | 0 | 20 | 0 | 1995 | 0 |
| CVT | 5.0 | 240.5 | 0 | -25 | 0 | 1998 | 0 |
| Automated Manual Trans | 7.3 | 138.6 | 0 | 0 | 0 | 2004 | 0 |
| Roller Cam | 2 | 16 | 0 | 0 | 0 | 1980 | 0 |
| OHC/AdvOHV-4 Cylinder | 2.0 | 99 | 0 | 0 | 0 | 1980 | 2.5 |
| OHC/AdvOHV-6 Cylinder | 2.0 | 115.7 | 0 | 0 | 0 | 1987 | 2.5 |
| OHC/AdvOHV-8 Cylinder | 2.0 | 132.3 | 0 | 0 | 0 | 1986 | 2.5 |
| 4-Valve/4-Cylinder | 8 | 205 | 0 | 10 | 0 | 1988 | 4.25 |
| 4-Valve/6-Cylinder | 8 | 280 | 0 | 15 | 0 | 1992 | 4.25 |
| 4 Valve/8-Cylinder | 8 | 320 | 0 | 20 | 0 | 1994 | 4.25 |
| 5 Valve/6-Cylinder | 8 | 300 | 0 | 18 | 0 | 1998 | 5 |
| VVT-4 Cylinder | 2.0 | 48.9 | 0 | 10 | 0 | 1994 | 1.25 |
| VVT-6 Cylinder | 2.0 | 97.8 | 0 | 20 | 0 | 1993 | 1.25 |
| VVT-8 Cylinder | 2.0 | 97.8 | 0 | 20 | 0 | 1993 | 1.25 |
| VVL-4 Cylinder | 2.0 | 162.2 | 0 | 25 | 0 | 1997 | 2.5 |
| VVL-6 Cylinder | 2.0 | 245.9 | 0 | 40 | 0 | 2000 | 2.5 |
| VVL-8 Cylinder | 2.0 | 317.5 | 0 | 50 | 0 | 2000 | 2.5 |
| Camless Valve Actuation-4cyl | 13.6 | 400.9 | 0 | 35 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-6cyl | 13.6 | 561.3 | 0 | 55 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-8cyl | 13.6 | 721.6 | 0 | 75 | 0 | 2020 | 3.25 |
| Cylinder Deactivation | 5.3 | 152.3 | 0 | 10 | 0 | 2004 | 0 |
| Turbocharging/Supercharging | 6.3 | 324.7 | 0 | -100 | 0 | 1980 | 3.75 |
| Engine Friction Reduction I | 2.3 | 54 | 0 | 0 | 0 | 1992 | 0.75 |
| Engine Friction Reduction II | 2.8 | 60.9 | 0 | 0 | 0 | 2000 | 1.25 |
| Engine Friction Reduction III | 4.0 | 138.7 | 0 | 0 | 0 | 2008 | 1.75 |
| Engine Friction Reduction IV | 6.5 | 177 | 0 | 0 | 0 | 2016 | 2.25 |
| Stoichiometric GDI/4-Cylinder | 2.4 | 293.8 | 0 | 20 | 0 | 2006 | 2.5 |
| Stoichiometric GDI/6-Cylinder | 2.4 | 377.6 | 0 | 30 | 0 | 2006 | 2.5 |
| Lean Burn GDI | 10.0 | 640.5 | 0 | 20 | 0 | 2020 | 0 |
| 5W-30 Engine Oil | 0.5 | 4.0 | 0 | 0 | 0 | 1998 | 0 |
| 5W-20 Engine Oil | 2 | 16.7 | 0 | 0 | 0 | 2003 | 0 |
| OW-20 Engine Oil | 3.1 | 150 | 0 | 0 | 0 | 2030 | 0 |
| Electric Power Steering | 1.5 | 90.6 | 0 | 0 | 0 | 2004 | 0 |
| Improved Alternator | 0.3 | 15 | 0 | 0 | 0 | 2005 | 0 |
| Improved Oil/Water Pump | 0.5 | 10 | 0 | 0 | 0 | 2000 | 0 |
| Electric Oil/Water Pump | 1 | 93.4 | 0 | 0 | 0 | 2007 | 0 |
| Tires II | 1.8 | 15.8 | 0 | -8 | 0 | 1995 | 0 |
| Tires III | 2.7 | 19.9 | 0 | -12 | 0 | 2005 | 0 |
| Tires IV | 3.8 | 22.9 | 0 | -16 | 0 | 2015 | 0 |
| Front Wheel Drive | 6 | 250 | 0 | 0 | -6 | 1980 | 0 |
| Four Wheel Drive Improvements | 1.3 | 93.8 | 0 | 0 | -1 | 2000 | 0 |
| 42V-Launch Assist and Regen | 7.5 | 280 | 0 | 80 | 0 | 2005 | -2.5 |
| 42V-Engine Off at Idle | 6.8 | 496.6 | 0 | 45 | 0 | 2005 | 0 |
| Tier 2 Emissions Technology | -1 | 120 | 0 | 20 | 0 | 2006 | 0 |
| Increased Size/Weight | -0.5 | 0 | 0 | 0 | 2.55 | 2006 | 0 |
| Variable Compression Ratio | 4 | 350 | 0 | 25 | 0 | 2015 | 0 |

[1] Fractional changes refer to the percentage change from the 1990 values.

**Table 7.2. Standard Technology Matrix For Light Trucks[1]**

| | Fractional Fuel Efficiency Change | Incremental Cost (1990$) | Incremental Cost ($/UnitWt.) | Incremental Weight (Lbs.) | Incremental Weight (Lbs./UnitWt.) | Introduction Year | Fractional Horse-power Change |
|---|---|---|---|---|---|---|---|
| Unit Body Construction | 4 | 100 | 0 | 0 | -6 | 1980 | 0 |
| Material Substitution II | 3.3 | 0 | 0.4 | 0 | -5 | 1994 | 0 |
| Material Substitution III | 6.6 | 0 | 0.6 | 0 | -10 | 2002 | 0 |
| Material Substitution IV | 9.9 | 0 | 0.9 | 0 | -15 | 2010 | 0 |
| Material Substitution V | 13.2 | 0 | 1.2 | 0 | -20 | 2018 | 0 |
| Drag Reduction II | 2.0 | 32 | 0 | 0 | 0 | 1992 | 0 |
| Drag Reduction III | 4.1 | 57 | 0 | 0 | 0.2 | 1998 | 0 |
| Drag Reduction IV | 6.4 | 89 | 0 | 0 | 0.5 | 2006 | 0 |
| Drag Reduction V | 7.8 | 109 | 0 | 0 | 1 | 2014 | 0 |
| Roll-Over Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2006 | 0 |
| Side Impact Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2006 | 0 |
| Adv Low Loss Torque Converter | 2 | 25 | 0 | 0 | 0 | 2005 | 0 |
| Early Torque Converter Lockup | 0.5 | 25.6 | 0 | 0 | 0 | 2003 | 0 |
| Aggressive Shift Logic | 1.5 | 30.5 | 0 | 0 | 0 | 1999 | 0 |
| 4-Speed Automatic | 4.5 | 285 | 0 | 10 | 0 | 1980 | 0 |
| 5-Speed Automatic | 2.5 | 106.5 | 0 | 20 | 0 | 1995 | 0 |
| 6-Speed Automatic | 2.9 | 259 | 0 | 30 | 0 | 2003 | 0 |
| 6-Speed Manual | 0.5 | 91.4 | 0 | 20 | 0 | 1995 | 0 |
| CVT | 7.0 | 138.6 | 0 | -25 | 0 | 1998 | 0 |
| Automated Manual Trans | 3.4 | 157.5 | 0 | 0 | 0 | 2004 | 0 |
| Roller Cam | 2 | 16 | 0 | 0 | 0 | 1985 | 0 |
| OHC/AdvOHV-4 Cylinder | 2.0 | 99 | 0 | 0 | 0 | 1980 | 2.5 |
| OHC/AdvOHV-6 Cylinder | 2.0 | 115.7 | 0 | 0 | 0 | 1990 | 2.5 |
| OHC/AdvOHV-8 Cylinder | 2.0 | 132.3 | 0 | 0 | 0 | 1990 | 2.5 |
| 4-Valve/4-Cylinder | 7 | 205 | 0 | 10 | 0 | 1998 | 4.25 |
| 4-Valve/6-Cylinder | 7 | 280 | 0 | 15 | 0 | 2000 | 4.25 |
| 4 Valve/8-Cylinder | 7 | 320 | 0 | 20 | 0 | 2000 | 4.25 |
| 5 Valve/6-Cylinder | 7 | 300 | 0 | 18 | 0 | 2010 | 5 |
| VVT-4 Cylinder | 2.0 | 48.9 | 0 | 10 | 0 | 1998 | 1.25 |
| VVT-6 Cylinder | 2.0 | 97.8 | 0 | 20 | 0 | 1997 | 1.25 |
| VVT-8 Cylinder | 2.0 | 97.8 | 0 | 20 | 0 | 1997 | 1.25 |
| VVL-4 Cylinder | 2.0 | 161.2 | 0 | 25 | 0 | 2002 | 2.5 |
| VVL-6 Cylinder | 2.0 | 245.4 | 0 | 40 | 0 | 2001 | 2.5 |
| VVL-8 Cylinder | 2.0 | 317.5 | 0 | 50 | 0 | 2006 | 2.5 |
| Camless Valve Actuation-4cyl | 13.6 | 400.9 | 0 | 35 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-6cyl | 13.6 | 561.3 | 0 | 55 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-8cyl | 13.6 | 721.6 | 0 | 75 | 0 | 2020 | 3.25 |
| Cylinder Deactivation | 5.3 | 152.3 | 0 | 10 | 0 | 2004 | 0 |
| Turbocharging/Supercharging | 6.3 | 481.3 | 0 | -100 | 0 | 1987 | 3.75 |
| Engine Friction Reduction I | 2.5 | 25 | 0 | 0 | 0 | 1992 | 0.75 |
| Engine Friction Reduction II | 3.5 | 63 | 0 | 0 | 0 | 2000 | 1.25 |
| Engine Friction Reduction III | 5 | 178.0 | 0 | 0 | 0 | 2010 | 1.75 |
| Engine Friction Reduction IV | 6.5 | 177 | 0 | 0 | 0 | 2016 | 2.25 |
| Stoichiometric GDI/4-Cylinder | 2.4 | 293.9 | 0 | 20 | 0 | 2008 | 2.5 |
| Stoichiometric GDI/6-Cylinder | 2.4 | 377.7 | 0 | 30 | 0 | 2010 | 2.5 |
| Lean Burn GDI | 10.8 | 640.5 | 0 | 20 | 0 | 2010 | 0 |
| 5W-30 Engine Oil | 0.5 | 4.0 | 0 | 0 | 0 | 1998 | 0 |
| 5W-20 Engine Oil | 2 | 16.7 | 0 | 0 | 0 | 2003 | 0 |
| OW-20 Engine Oil | 3.1 | 150 | 0 | 0 | 0 | 2030 | 0 |
| Electric Power Steering | 1.8 | 90.2 | 0 | 0 | 0 | 2005 | 0 |
| Improved Alternator | 1.5 | 15 | 0 | 0 | 0 | 2005 | 0 |
| Improved Oil/Water Pump | 0.5 | 10 | 0 | 0 | 0 | 2000 | 0 |
| Electric Oil/Water Pump | 1 | 93.4 | 0 | 0 | 0 | 2008 | 0 |
| Tires II | 0.0 | 30 | 0 | -8 | 0 | 1995 | 0 |
| Tires III | 1.3 | 15.4 | 0 | -12 | 0 | 2005 | 0 |
| Tires IV | 2.7 | 19.5 | 0 | -16 | 0 | 2015 | 0 |
| Front Wheel Drive | 2 | 250 | 0 | 0 | -3 | 1984 | 0 |
| Four Wheel Drive Improvements | 1.3 | 93.8 | 0 | 0 | -1 | 2000 | 0 |
| 42V-Launch Assist and Regen | 7.5 | 280 | 0 | 80 | 0 | 2005 | 2.5 |
| 42V-Engine Off at Idle | 6.8 | 434.9 | 0 | 45 | 0 | 2005 | 0 |
| Tier 2 Emissions Technology | -1 | 160 | 0 | 20 | 0 | 2006 | 0 |
| Increased Size/Weight | 0.8 | 0 | 0 | 0 | 3.75 | 2006 | 0 |
| Variable Compression Ratio | 4 | 350 | 0 | 25 | 0 | 2015 | 0 |

[1]Fractional changes refer to the percentage change from the 1990 values.

Sources: Energy and Environment Analysis, *Documentation of Technology included in the NEMS Fuel Economy Model for Passenger Cars and Light Trucks* (September, 2002). National Research Council, *Effectiveness and Impact of Corporate Average Fuel Economy (CAFE) Standards* (Copyright 2002). National Highway Traffic Safety Administration, *Corporate Average Fuel Economy for MY 2011-2015 Passenger Cars and Light Trucks* (April 2008). U.S. Environmental Protection Agency, *Interim Report: New Powertrain Technologies and Their Projected Costs* (October 2005)

Degradation factors are used to convert new vehicle tested fuel economy values to "on-road" fuel economy values (Table 7.3).  The degradation factors represent adjustments made to tested fuel economy values to account for the difference experienced between fuel economy performance realized in the CAFE test procedure compared fuel economy realized under normal driving conditions.

**Table 7.3.  Car and Light Truck Degradation Factors**

|  | 2005 | 2010 | 2015 | 2020 | 2030 | 2035 |
|---|---|---|---|---|---|---|
| Cars | 78.3 | 81.8 | 82.3 | 82.8 | 83.8 | 83.8 |
| Light Trucks | 85.9 | 84.0 | 84.0 | 84.0 | 84.0 | 84.0 |

Source:  Energy Information Administration, *Transportation Sector Model of the National Energy Modeling System, Model Documentation 2007*, DOE/EIA-M070(2007), (Washington, DC, 2007).

## Commercial Light Duty Fleet Assumptions

The Transportation Demand Module is designed to divide commercial light-duty fleets into three types: business, government, and utility. Based on this classification, commercial light-duty fleet vehicles vary in survival rates and duration in fleet use before being sold for use as personal vehicles (Table 7.4). The average length of time vehicles are kept before being sold for personal use is 4 years for business use, 5 years for government use, and 6 years for utility use.  Of total automobile sales to fleets, 80.6 percent are used in business fleets, 6.5 percent in government fleets, and 12.9 percent in utility fleets. Of total light truck sales to fleets, 59.5 percent are used in business fleets, 3.6 percent in government fleets, and 36.8 percent in utility fleets. [3]  Both the automobile and light truck shares by fleet type are held constant from 2004 through 2035. In 2006, 18.1 percent of all automobiles sold and 18.2 percent of all light trucks sold were for fleet use. The share of total automobile and light truck sales to decline over the forecast period based on historic trends.

**Table 7.4. 2005 Percent of fleet Alternative Fuel Vehicles by Fleet Type by Size class**

|  | Mini | Subcompact | Compact | Midsize | Large | 2-Seater |
|---|---|---|---|---|---|---|
| Car |  |  |  |  |  |  |
| Business | 0.00 | 10.52 | 10.73 | 42.68 | 36.07 | 0.00 |
| Government | 0.00 | 2.80 | 39.98 | 2.84 | 54.39 | 0.00 |
| Utility | 0.00 | 7.86 | 34.74 | 12.32 | 45.08 | 0.00 |
|  | **SM Pk** | **LG Pk** | **SM Van** | **LG Van** | **SM Util** | **LG Util** |
| Light Truck |  |  |  |  |  |  |
| Business | 7.94 | 35.14 | 7.89 | 26.76 | 5.46 | 16.81 |
| Government | 6.75 | 50.81 | 28.41 | 4.60 | 1.62 | 7.81 |
| Utility | 8.22 | 52.06 | 5.99 | 32.69 | 0.32 | 0.72 |

Source:  CNEAF Alternatives to Traditional Transportation Fuels 2005 (Part II - User and Fuel Data).
http://www.eia.doe.gov/cneaf/alternate/page/aftables/afvtransfuel_II.html #in use

Alternative-fuel shares of fleet vehicle sales by fleet type are held constant at year 2005 levels.  Size class sales shares of vehicles are held constant at 2005 levels (Table 7.5). [4] Individual sales shares of new vehicles purchased by technology type are assumed to remain constant for utility, government, and for business fleets [5] (Table 7.6).

Annual VMT per vehicle by fleet type stays constant over the forecast period based on the Oak Ridge National Laboratory fleet data.

Fleet fuel economy for both conventional and alternative-fuel vehicles is assumed to be the same as the personal new vehicle fuel economy and is subdivided into six EPA size classes for cars and light trucks.

## Table 7.5. Commercial Fleet Size Class Shares by Fleet and Vehicle Type
(Percentage)

| Fleet Type by Size Class | Automobiles | Light Trucks |
|---|---|---|
| Business Fleet | | |
| Mini | 3.12 | 2.46 |
| Subcompact | 23.42 | 8.41 |
| Compact | 26.62 | 23.26 |
| Midsize | 36.15 | 8.12 |
| Large | 9.90 | 14.15 |
| 2-seater | 0.78 | 43.60 |
| Government Fleet | | |
| Minl | 0.19 | 6.67 |
| Subcompact | 4.58 | 43.60 |
| Compact | 20.55 | 10.44 |
| Midsize | 28.64 | 17.10 |
| Large | 45.99 | 3.82 |
| 2-seater | 0.05 | 18.37 |
| Utility Fleet | | |
| Mini | 1.50 | 7.26 |
| Subcompact | 12.47 | 38.71 |
| Compact | 10.01 | 11.79 |
| Midsize | 59.23 | 18.91 |
| Large | 16.42 | 7.19 |
| 2-seater | 0.38 | 16.15 |

Source: Oak Ridge National Laboratory, *Fleet Characteristics and Data Issues*, Stacy Davis and Lorena Truett, final report prepared for the Department of Energy, Energy Information Administration, Office of Integrated Analysis and Forecasting, (Oak Ridge, TN, January 2003).

## Table 7.6. Share of New Vehicle Purchases by Fleet Type and Technology Type
(Percentage)

| Technology | Business | Government | Utility |
|---|---|---|---|
| Cars | | | |
| Gasoline | 99.59 | 79.40 | 99.72 |
| Ethanol Flex | 0.27 | 18.98 | 0.13 |
| Methanol Flex | 0.00 | 0.00 | 0.00 |
| Electric | 0.01 | 0.01 | 0.00 |
| CNG Bi-Fuel | 0.05 | 1.38 | 0.10 |
| LPG Bi-Fuel | 0.01 | 0.00 | 0.00 |
| CNG | 0.07 | 0.22 | 0.05 |
| LPG | 0.00 | 0.00 | 0.00 |
| | | | |
| Light Trucks | | | |
| Gasoline | 96.07 | 68.97 | 99.69 |
| Ethanol Flex | 3.38 | 28.03 | 0.11 |
| Methanol Flex | 0.00 | 0.00 | 0.00 |
| Electric | 0.01 | 0.00 | 0.00 |
| CNG Bi-Fuel | 0.32 | 2.57 | 0.14 |
| LPG Bi-Fuel | 0.00 | 0.01 | 0.01 |
| CNG | 0.22 | 0.42 | 0.04 |
| LPG | 0.00 | 0.00 | 0.01 |

Sources: CNEAF Alternatives to Traditional Transportation Fuels 2005 (part II - User and Fuel Data). http://www.eia.doe.gov/cneaf/alternate/page/aftables/afvtransfuel_II.html #in use.

## The Light Commercial Truck Model

The Light Commercial Truck Module of the NEMS Transportation Model represents light trucks that have a 8,501 to 10,000 pound gross vehicle weight rating (Class 2B vehicles). These vehicles are assumed to be used primarily for commercial purposes.

The module implements a twenty-year stock model that estimates vehicle stocks, travel, fuel economy, and energy use by vintage. Historic vehicle sales and stock data, which constitute the baseline from which the forecast is made, are taken from a recent Oak Ridge National Laboratory study. [6] The distribution of vehicles by vintage, and vehicle scrappage rates are derived from R.L. Polk company registration data. [7],[8] Vehicle travel by vintage was constructed using vintage distribution curves and estimates of average annual travel by vehicle. [9],[10]

The growth in light commercial truck VMT is a function of industrial output for agriculture, mining, construction, trade, utilities, and personal travel. These industrial groupings were chosen for their correspondence with output measures being forecast by NEMS. The overall growth in VMT reflects a weighted average based upon the distribution to total light commercial truck VMT by sector. Forecasted fuel efficiencies are assumed to increase at the same annual growth rate as conventional gasoline light-duty trucks (<8,500 pounds gross vehicle weight).

## Consumer Vehicle Choice Assumptions

The Consumer Vehicle Choice Module (CVCM) utilizes a nested multinomial logit (NMNL) model that predicts sales shares based on relevant vehicle and fuel attributes. The nesting structure first predicts the probability of fuel choice for multi-fuel vehicles within a technology set. The second level nesting predicts penetration among similar technologies within a technology set (i.e., gasoline versus diesel hybrids). The third level choice determines market share among the different technology sets. [11] The technology sets include:

- Conventional fuel capable (gasoline, diesel, bi-fuel and flex-fuel),

- Hybrid (gasoline and diesel),

- Plug in hybrid (10 mile all electric range and 40 mile all electric range)

- Dedicated alternative fuel (CNG, LPG, methanol, and ethanol),

- Fuel cell (gasoline, methanol, and hydrogen), and

- electric battery powered (nickel-metal hydride and lithium ion) [12]

The vehicle attributes considered in the choice algorithm include: price, maintenance cost, battery replacement cost, range, multi-fuel capability, home refueling capability, fuel economy, acceleration and luggage space. With the exception of maintenance cost, battery replacement cost, and luggage space, vehicle attributes are determined endogenously. [13] Battery costs for plug-in hybrid electric and all-electric vehicles are based on a production based function over several technology phase periods. The fuel attributes used in market share estimation include availability and price. Vehicle attributes vary by six EPA size classes for cars and light trucks and fuel availability varies by Census division. The NMNL model coefficients were developed to reflect purchase decisions for cars and light trucks separately.

Where applicable, CVCM fuel efficient technology attributes are calculated relative to conventional gasoline miles per gallon. It is assumed that many fuel efficiency improvements in conventional vehicles will be transferred to alternative-fuel vehicles. Specific individual alternative-fuel technological improvements are also dependent upon the CVCM technology type, cost, research and development, and availability over time. Make and model availability estimates are assumed according to a logistic curve based on the initial technology introduction date and current offerings. Coefficients summarizing consumer valuation of vehicle attributes were derived from assumed economic valuation compared to vehicle price elasticities. Initial CVCM vehicle stocks are set according to EIA surveys. [14] A fuel switching algorithm based on the relative fuel prices for alternative fuels compared to gasoline is used to determine the percentage of total VMT represented by alternative fuels in bi-fuel and flex-fuel alcohol vehicles.

## Freight Truck Assumptions

The freight truck module estimates vehicle stocks, travel, fuel efficiency, and energy use of three size classes: light medium (Class 3), heavy medium (Classes 4 -6), and heavy (Classes 7-8). Within the size classes, the stock model structure is designed to cover 38 vehicle vintages and to estimate energy use by four fuel types: diesel, gasoline, LPG, and CNG. Fuel consumption estimates are reported regionally (by Census Division) according to the distillate fuel shares from the State Energy Data Report [15]. The technology input data specific to the different types of trucks including the year of introduction, incremental fuel efficiency improvement, and capital cost of introducing the new technologies, are shown in Table 7.7.

## Table 7.7. Standard Technology Matrix for Freight Trucks

| Technology Type | Medium Light Trucks | | | Medium Heavy Trucks | | | Heavy Trucks | | |
|---|---|---|---|---|---|---|---|---|---|
| | Introduction Year | Capital Cost | Incr. Fuel Econ. Improvement | Introduction Year | Capital Cost | Incr. Fuel Econ. Improvement | Introduction Year | Capital Cost | Incr. Fuel Econ. Improvement |
| Areo dynamic I: Cab top deflector, sloping hood and cab side flares | 2002 | 600.00 | 0.023 | 1995 | 750.00 | 0.023 | 1995 | 750.00 | 0.018 |
| Closing/covering of gap between tractor and trailer, aero dynamic bumper, underside air baffles, wheel well covers | N/A | N/A | 0.000 | 2004 | 800.00 | 0.036 | 2005 | 1500.00 | 0.023 |
| Trailer leading and trailing edge curvatures | N/A | N/A | 0.000 | 2005 | 400.00 | 0.009 | 2005 | 500.00 | 0.012 |
| Aero Dynamics IV: pneumatic blowing | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2010 | 2500.00 | 0.045 |
| Tires I: radials | 1995 | 40.00 | 0.018 | 1995 | 180.00 | 0.018 | 1995 | 300.00 | 0.014 |
| Tires II: low rolling resistance | 2004 | 180.00 | 0.023 | 2005 | 280.00 | 0.023 | 2005 | 550.00 | 0.027 |
| Tires III: super singles | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2005 | 700.00 | 0.018 |
| Tires IV: reduced rolling resistance from pneumatic blowing | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2015 | 500.00 | 0.011 |
| Transmission: lock-up, electronic controls, reduced friction | 2005 | 750.00 | 0.018 | 2005 | 900.00 | 0.018 | 2005 | 1000.00 | 0.018 |
| Diesel Engine I: turbocharged, direct injection with better thermal management | 2003 | 700.00 | 0.045 | 2004 | 1000.00 | 0.072 | N/A | N/A | 0.000 |
| Diesel Engine II: integrated starter/alternator with idle off and limited regenerative breaking | 2005 | 1500.00 | 0.045 | 2005 | 1200.00 | 0.045 | N/A | N/A | 0.000 |
| Diesel Engine III: improved engine iwth lower friction, better injectors, and efficient combustion | 2012 | 2000.00 | 0.090 | 2008 | 2000.00 | 0.072 | N/A | 300.00 | 0.000 |
| Diesel Engine IV: hybrid electric powertrain | 2010 | 6000.00 | 0.360 | 2010 | 8000.00 | 0.360 | N/A | N/A | 0.000 |
| Diesel Engine V: internal friction reduction - iimproved lubricants and bearings | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2005 | 500.00 | 0.018 |
| Diesel Engine VI: increased peak cylinder pressure | N/A | NA | 0.000 | N/A | N/A | 0.000 | 2006 | 1000.00 | 0.036 |
| Diesel Engine VII: improved injectors and more efficient combustion | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2007 | 1500 | 0.054 |
| Diesel Engine VIII: reduce waste heat improved thermal management | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2010 | 2000 | 0.090 |

**Table 7.7. Standard Technology Matrix for Freight Trucks (cont.)**

| Technology Type | Medium Light Trucks | | | Medium Heavy Trucks | | | Heavy Trucks | | |
|---|---|---|---|---|---|---|---|---|---|
| | Introd-uction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introd-uction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introd-uction Year | Capital Cost | Incr. Fuel Econ. Improve-ment |
| Gasoline Engine I: electronic fuel injection, DOHC, multiple values | 2003 | 700.00 | 0.045 | 2003 | 1000.00 | 0.045 | N/A | N/A | 0.000 |
| Gasoline Engine II: integrated starter/alternator with idle off and limited regenerative breaking | 2005 | 1000.00 | 0.045 | 2005 | 1200.00 | 0.072 | N/A | N/A | 0.000 |
| Gasoline Engine III: direct injection (GDI) | 2008 | 700.00 | 0.108 | 2008 | 1000.00 | 0.108 | N/A | N/A | 0.000 |
| Gasoline Engine IV; hybrid electric powertrain | 2010 | 6000.00 | 0.405 | 2010 | 8000.00 | 0.405 | N/A | N/A | 0.000 |
| Weight Reduction I: high strength lightweight materials | 2010 | 1300.00 | 0.045 | 2007 | 2000.00 | 0.045 | 2005 | 2000.00 | 0.090 |
| Diesel Emission-NO$_x$ I: exhaust recirculation, timing retard, selective catalytic reduction | 2002 | 250.00 | -0.040 | 2003 | 400.00 | -0.040 | 2003 | 500.00 | -0.040 |
| Diesel Emissions-NO$_x$ II: nitrogen enriched combustion air | 2003 | 500.00 | -0.005 | 2003 | 700.00 | -0.005 | 2003 | 750.00 | -0.005 |
| Diesel Emissions-NO$_x$ III: non-thermal plasma catalyst | 2007 | 1000.00 | -0.015 | 2006 | 1200.00 | -0.015 | 2007 | 1250.00 | -0.015 |
| Diesel Emissions-NO$_x$ IV: NO$_x$ absorber system | 2007 | 1500.00 | -0.030 | 2006 | 2000.00 | -0.030 | 2007 | 2500.00 | -0.030 |
| Diesel Emission-PM I: oxidation catalyst | 2002 | 150.00 | -0.005 | 2002 | 200.00 | -0.005 | 2002 | 250.00 | -0.005 |
| Diesel Emission-PM II: catalytic particulate filter | 2006 | 1000.00 | -0.015 | 2006 | 1250.00 | -0.025 | 2006 | 1500.00 | -0.015 |
| Diesel Emission-HC/CO I:  oxidation catalyst | 2002 | 150.00 | -0.005 | 2002 | 200.00 | -0.005 | 2002 | 250.00 | -0.005 |
| Diesl Emission-HC/CO II:  closed crankcase system | 2005 | 50.00 | 0.000 | 2005 | 65.00 | 0.000 | 2005 | 75.00 | 0.000 |
| Gasoline Emission-PM I:  Improved oxidation catalyst | 2005 | 250.00 | -0.003 | 2005 | 350.00 | -0.003 | N/A | N/A | 0.000 |
| Gasoline Emission-NO$_x$ I: EGR/spark retard | 2002 | 25.00 | -0.015 | 2002 | 25.00 | -0.015 | N/A | N/A | 0.000 |
| Gasoline Emission-NO$_x$ II: oxygen sensors | 2003 | 75.00 | 0.000 | 2003 | 75.00 | 0.000 | N/A | N/A | 0.000 |
| Gasoline Emission-NO$_x$ III: secondary air/closed loop system | 2008 | 50.00 | 0.000 | 2008 | 50.00 | 0.000 | N/A | N/A | 0.000 |

**Table 7.7. Standard Technology Matrix for Freight Trucks (cont.)**

| Technology Type | Medium Light Trucks | | | Medium Heavy Trucks | | | Heavy Trucks | | |
|---|---|---|---|---|---|---|---|---|---|
| | Introd-uction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introd-uction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introd-uction Year | Capital Cost | Incr. Fuel Econ. Improve-ment |
| Gasoline Emission-HC/CO I: oxygen sensors | 2003 | 75.00 | 0.000 | 2003 | 75.00 | 0.000 | N/A | N/A | 0.000 |
| Gasoline Emission-HC/CO II: evap. canister w/improved vaccum, materials, and connectors | 2003 | 50.00 | 0.000 | 2003 | 50.00 | 0.000 | N/A | N/A | 0.000 |
| Gasoline Emission-HC/CO III: oxidation catalyst | 2005 | 250.00 | -0.003 | 2005 | 350.00 | -0.003 | N/A | N/A | 0.000 |

1. Payback period is same for the three modes.

The freight module uses projections of dollars of industrial output to estimate growth in freight truck travel. The industrial output is converted to an equivalent measure of volume output using freight adjustment coefficients. [16],[17] These freight adjustment coefficients vary by North American Industrial Classification System (NAICS) code with the deviation diminishing gradually over time toward parity. Freight truck load-factors (ton-miles per truck) by NAICS code are constants formulated from historical data. [18]

Fuel economy of new freight trucks is dependent on the market penetration of various emission control technologies and advanced technology components.[19] For the advanced technology components, market penetration is determined as a function of technology type, cost effectiveness, and introduction year. Cost effectiveness is calculated as a function of fuel price, vehicle travel, fuel economy improvement, and incremental capital cost. Emissions control equipment is assumed to enter the market to meet regulated emission standards.

Heavy truck freight travel is estimated by class size and fuel type based on matching projected freight travel demand (measured by industrial output) to the travel supplied by the current fleet. Travel by vintage and size class is then adjusted so that total travel meets total demand. Initial heavy vehicle travel, by vintage and size class, is derived using Vehicle Inventory and Use Survey (VIUS) data. [20]

Initial freight truck stocks by vintage are obtained from R. L. Polk Co. and are distributed by fuel type using VIUS data. [21] Vehicle scrappage rates are also estimated using R. L. Polk Co. data. [22]

## Freight and Transit Rail Assumptions

The freight rail module uses the industrial output by NAICS code measured in real 1987 dollars and converts these dollars into an adjusted volume equivalent. Coal production from the NEMS Coal Market Module is used to adjust coal based rail travel. Freight rail adjustment coefficients (used to convert dollars to volume equivalents) are based on historical data and remain constant.[23],[24] Initial freight rail efficiencies are based on historic data taken from the Transportation Energy Databook. [25] The distribution of rail fuel consumption by fuel type is also based on historical data and remains constant over the projection. [26] Regional freight rail consumption estimates are distributed according to the State Energy Data Report. [27]

## Domestic and International Shipping Assumptions

Similar to the previous sub-module, the domestic freight shipping module uses the industrial output by NAICS code measured in real 1987 dollars and converts these dollars into an adjusted volume equivalent.

The freight adjustment coefficients (used to convert dollars to volume equivalents) are based on historical data. Domestic shipping efficiencies are based on the model developed by Argonne National Laboratory. The energy consumption in the international shipping module is a function of the total level of imports and exports. The distribution of domestic and international shipping fuel consumption by fuel type is based on

historical data and remains constant throughout the forecast. [28] Regional domestic shipping consumption estimates are distributed according to the residual oil regional shares in the *State Energy Data Report*. [29]

## *Air Travel Demand Assumptions*

The air travel demand module calculates the domestic and international ticket prices for travel as a function of fuel cost. Domestic and international revenue passenger miles are based on historic data, [30] per capita income, and ticket price. The revenue ton miles of air freight are based on merchandise exports, gross domestic product, and fuel cost. [31]

Airport capacity constraints based on the *FAA's Airport Capacity Benchmark Report 2004* are incorporated into the air travel demand module using airport capacity measures. [32] Airport capacity is defined by the maximum number of flights per hour airports can routinely handle, the amount of time airports operate at optimal capacity, and passenger load factors. Capacity expansion is expected to be delayed due to the economic environment and fuel costs.

## *Aircraft Stock/Efficiency Assumptions*

The aircraft stock and efficiency module consists of a world, US and Non-US, stock model of wide body, narrow body, and regional jets by vintage. Total aircraft supply for a given year is based on the initial supply of aircraft for model year 2008, new passenger sales, and the survival rate by vintage (Table 7.8). [33] New passenger sales are a function of revenue passenger miles and gross domestic product.

**Table 7.8.  2008 USA Passenger and Cargo Aircraft Supply and Survival Rate**

| Aircraft Type | Age of Aircraft (years) | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| | New | 1-10 | 11-20 | 21-30 | >30 | Total |
| Passenger | | | | | | |
| Narrow Body | 114 | 1,716 | 1,261 | 610 | 283 | 3,984 |
| Wide Body | 3 | 285 | 266 | 164 | 40 | 758 |
| Regional Jets | 130 | 1,785 | 115 | 11 | 10 | 2,051 |
| Cargo | | | | | | |
| Narrow Body | 0 | 6 | 71 | 134 | 250 | 461 |
| Wide Body | 4 | 104 | 208 | 211 | 99 | 626 |
| Survival Curve (fraction) | New | 5 | 10 | 20 | 30 | |
| Narrow Body | 1.0000 | 0.9998 | 0.9992 | 0.9911 | 0.9256 | |
| Wide Body | 1.0000 | 0.9980 | 0.9954 | 0.9754 | 0.8892 | |
| Regional Jets | 1.0000 | 0.9967 | 0.9942 | 0.9816 | 0.9447 | |

Source: Jet Information Services, 2008 World Jet Inventory, data tables (2008).

Wide and narrow body planes over 25 years of age are placed as cargo jets according to a cargo percentage varying from 50 percent of 25 year old planes to 100 percent of those aircraft 30 years and older. The available seat-miles per plane, which measure the carrying capacity of the airplanes by aircraft type, vary over time, with wide bodies remaining constant and narrow bodies increasing. [34] The difference between seat-miles demanded and available seat-miles represents potential newly purchased aircraft. If demand is less than supply, then passenger aircraft is either parked or exported, starting with twenty nine year old aircraft, at a pre-defined rate. Aircraft continue to be parked until equilibrium is reached. If supply is less than demand planes are either imported or unparked and brought back into service.

Technological availability, economic viability, and efficiency characteristics of new aircraft are assumed to grow at a fixed rate. Fuel efficiency of new aircraft acquisitions represents an improvement over the stock efficiency of surviving airplanes. A generic set of new technologies (Table 7.9) are introduced in different years and with a set of improved efficiencies over the base year (2007). Regional shares of all types of aircraft fuel use are assumed to be constant and are consistent with the State Energy Data Report estimate of regional jet fuel shares.

**Table 7.9.  Standard Technology Matrix for Air Travel**

| Technology | Introduction Year | Fractional Efficiency Improvement | Jet Fuel Trigger Price (87$/gal) |
|---|---|---|---|
| Technology #1 | 2008 | 0.03 | 1.34 |
| Technology #2 | 2014 | 0.07 | 1.34 |
| Technology #3 | 2020 | 0.11 | 1.34 |
| Technology #4 | 2025 | 0.15 | 1.34 |
| Technology #5 | 2018 | 0.20 | 1.34 |
| Technology #6 | 2018 | 0.00 | 1.34 |
| Technology #7 | 9999 | 0.00 | 0.00 |
| Technology #8 | 9999 | 0.00 | 0.00 |
| Technology #9 | 9999 | 0.00 | 0.00 |

Source: Jet Information Services, 2008 World Jet Inventory, data tables (2008).

# Legislation and Regulations

## *Energy Independence and Security Act of 2007 (EISA2007)*

The EISA2007 legislation requires the development of fuel economy standards for work trucks (8,500 lbs. to less than 10,000 lbs GVWR) and commercial medium- and heavy-duty on-highway vehicles (10,000 lbs or more GVWR). The new fuel economy standards require consideration of vehicle attributes and duty requirements and can prescribe standards for different classes of vehicles, such as buses used in urban operation or semi-trucks used primarily in highway operation. The Act provides a minimum of 4 full model years lead time before the new fuel economy standard is adopted and 3 full model years after the new fuel economy standard has been established before the fuel economy standards for work trucks can be modified. Because these fuel economy standards are pending and NEMS does not currently model fuel economy regulation for work trucks or commercial medium- and heavy- duty vehicles, this aspect of the Act is not included in *AEO2010*.

A fuel economy credit trading program is established based on EISA2007. Currently, CAFE credits earned by manufacturers can be banked for up to 3 years and can only be applied to the fleet (car or light truck) from which the credit was earned. Starting in model year 2011 the credit trading program will allow manufacturers whose automobiles exceed the minimum fuel economy standards to earn credits that can be sold to other manufacturers whose automobiles fail to achieve the prescribed standards. The credit trading program is designed to ensure that the total oil savings associated with manufacturers that exceed the prescribed standards are preserved when credits are sold to manufacturers that fail to achieve the prescribed standards. While the credit trading program begins in 2011, EISA2007 allows manufacturers to apply credits

earned to any of the 3 model years prior to the model year the credits are earned, and to any of the 5 model years after the credits are earned. The transfer of credits within a manufacturer's fleet is limited to specific maximums. For model years 2011 through 2013, the maximum transfer is 1.0 mpg; for model years 2014 through 2017, the maximum transfer is 1.5 mpg; and for model years 2018 and later, the maximum credit transfer is 2.0 mpg. NEMS currently allows for sensitivity analysis of CAFE credit banking by manufacturer fleet, but does not model the trading of credits across manufacturers.  The *AEO2010* does not consider trading of credits since this would require significant modifications to NEMS and detailed technology cost and efficiency data by manufacturer, which is not readily available.

The CAFE credits specified under the Alternative Motor Fuels Act (AMFA) through 2019 are extended. Prior to passage of this Act, the CAFE credits under AMFA were scheduled to expire after model year 2010. Currently, 1.2 mpg is the maximum CAFE credit that can be earned from selling alternative fueled vehicles. EISA2007 extends the 1.2 mpg credit maximum through 2014 and reduces the maximum by 0.2 mpg for each following year until it is phased out by model year 2020. NEMS does model CAFE credits earned from alternative fuel vehicles sales.

## *American Recovery and Reinvestment Act o f2009 and Energy Improvement and Extension Act of 2008*

ARRA Title I,  Section 1141 modified the EIEA2008 Title II, Section 205 tax credit for the purchase of new, qualified plug-in electric drive motor vehicles.  According to the legislation, a qualified plug-in electric drive motor vehicle must draw propulsion from a traction battery with at least 4 kilowatthours of capacity and is propelled to a significant extent by an electric motor which draws electricity from a battery that is capable of being rechargrd from an external source of electricity.

The tax credit for the purchase of a plug-in electric vehicle is $2,500 plus, starting at a battery capacity of 5 kilowatthours, an additional $417 per kilowatthour battery credit up to a maximum of $7,500 per vehicle.  The tax credit eligibility and phase-out are specific to an individual vehicle manufacturer.  The credits are phased out once a manufacturer's cumulative sales maximum after December 31, 2009.  The credit is reduced to 50 percent of the total value for the first two calendar quarters of the phase-out period and then to 25 percent for the third and fourth calendar quarters before being phase out entirely thereafter.  The credit applies to vehicles with a gross vehicle weight rating of less than 14,000 pounds.

ARRA also allows a tax credit of 10 percent against the cost of a qualified elevctric vehicle with a battery capacity of at least 4 kilowatthours subject to the same phase out rules as above.  The tax credits for qualified plug-in electric drive motor vehicles and electric vehicles are included in *AEO2010*.

## *Energy Policy Act of 1992 (EPACT)*

Fleet alternative-fuel vehicle sales necessary to meet the EPACT regulations are derived based on the mandates as they currently stand and the Commercial Fleet Vehicle Module calculations. Total projected AFV sales are divided into fleets by government, business, and fuel providers (Table 7.10).

Because the commercial fleet model operates on three fleet type representations (business, government, and utility), the federal and state mandates are weighted by fleet vehicle stocks to create a composite mandate for both. The same combining methodology is used to create a composite mandate for electric utilities and fuel providers based on fleet vehicle stocks. [35]

## *Low Emission Vehicle Program (LEVP)*

The LEVP was originally passed into legislation in 1990 in the State of California. It began as the implementation of a voluntary opt-in pilot program under the purview of Clean Air Act Amendments of 1990 (CAAA90), which included a provision that other States could opt in to the California program to achieve lower emissions levels than would otherwise be achieved through CAAA90.  14 states have elected to adopt the California LEVP.

The LEVP is an emissions-based policy, setting sales mandates for 6 categories of low-emission vehicles: low-emission vehicles (LEVs), ultra-low-emission vehicles (ULEVs), super-ultra low emission vehicles (SULEVs), partial zero-emission vehicles (PZEVs), advanced technology partial zero emission vehicles

**Table 7.10. EPACT Legislative Mandates for AFV Purchases by Fleet Type and Year**
(Percent)

| Year | Federal | State | Fuel Providers | Electric  Utilities |
|------|---------|-------|----------------|---------------------|
| 2005 | 75 | 75 | 70 | 90 |

Source:  EIA, Energy Efficiency and Renewable Energy (Washington, DC, 2005), http://www1.eere.energy.gov/femp/about/fleet-requirements.html, http://www1.eere.energy.gov/vehicles and fuels/epact/state/state-gov.html.

(AT-PZEVs), and zero-emission  vehicles  (ZEVs). The LEVP requires that in 2005 10 percent of a manufacturer's sales are ZEVs or equivalent ZEV earned credits, increasing to 11 percent in 2009, 12 percent in 2012, 14 percent in 2015, and 16 percent in 2018 where it remains constant thereafter.  In August 2004, CARB enacted further amendments to the LEVP that place a greater emphasis on emissions reductions from PZEVs and AT-PZEVs and requires that manufacturers produce a minimum number of fuel cell and electric vehicles.   In addition, manufacturers are allowed to adopt alternative compliance requirements for ZEV sales that are based on cumulative fuel cell vehicle sales targets for vehicles sold in all States participating in California's LEVP. Under the alternative compliance requirements, ZEV credits can also be earned by selling battery electric vehicles.   Currently, all manufacturers have opted to adhere to the alternative compliance requirements. The mandate still includes phase-in multipliers for pure ZEVs and allows 20 percent of the sales requirement to be met with AT-PZEVs and 60 percent of the requirement to be met with PZEVs. AT-PZEVs and PZEVs are allowed 0.2 credits per vehicle.  EIA assumes that credit allowances for PZEVs will be met with conventional vehicle technology, hybrid vehicles will be sold to meet the AT-PZEV allowances, and that hydrogen fuel cell vehicles will be sold to meet the pure ZEV requirements under the alternative compliance path.

# Transportation Alternative Cases

## *High Technology Case*

In the *high technology* and *low technology* cases for cars and light trucks, the conventional fuel saving technology characteristics are based on NHTSA and EPA values. [36] Tables 7.10, 7.11, 7.12, 7.13, and 7.14 summarize the High and Low Technology matrices for cars and light trucks. Tables 7.15 and 7.16 reflect the *high* and *low technology* case assumptions for heavy trucks.  These reflect optimistic and pessimistic values, with respect to efficiency improvement and capital cost, for advanced engine and emission control technologies as reported by ANL. [37]

For the Air Module, the *high technology* case reflects earlier introduction years for the new aircraft technologies and a greater penetration share.  The *low technology* case is reflected by a delay in the introduction of new aircraft technologies. Tables 7.17 and 7.18 reflect these cases.

## Table 7.11.  High Technology Matrix For Cars

| | Fractional Fuel Efficiency Change | Incremental Cost (1990$) | Incremental Cost ($/Unit Wt.) | Incremental Weight (Lbs.) | Incremental Weight (Lbs./Unit Wt.) | Introduction Year | Fractional Horse-power Change |
|---|---|---|---|---|---|---|---|
| Unit Body Construction | 4 | 100 | 0 | 0 | -6 | 1980 | 0 |
| Material Substitution II | 3.3 | 0 | 0.4 | 0 | -5 | 1990 | 0 |
| Material Substitution III | 6.6 | 0 | 0.6 | 0 | -10 | 1998 | 0 |
| Material Substitution IV | 9.9 | 0 | 0.9 | 0 | -15 | 2006 | 0 |
| Material Substitution V | 13.2 | 0 | 1.2 | 0 | -20 | 2014 | 0 |
| Drag Reduction II | 1.6 | 16 | 0 | 0 | 0 | 1988 | 0 |
| Drag Reduction III | 3.2 | 32 | 0 | 0 | 0.2 | 1992 | 0 |
| Drag Reduction IV | 6.3 | 45 | 0 | 0 | 0.5 | 2000 | 0 |
| Drag Reduction V | 8 | 53.5 | 0 | 0 | 1 | 2010 | 0 |
| Roll-Over Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2004 | 0 |
| Side Impact Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2004 | 0 |
| Adv Low Loss Torque Converter | 2 | 25 | 0 | 0 | 0 | 1999 | 0 |
| Early Torque Converter Lockup | 1 | 25.6 | 0 | 0 | 0 | 2002 | 0 |
| Aggressive Shift Logic | 2 | 30.5 | 0 | 0 | 0 | 1999 | 0 |
| 4-Speed Automatic | 4.5 | 285 | 0 | 10 | 0 | 1980 | 0 |
| 5-Speed Automatic | 8 | 106.5 | 0 | 20 | 0 | 1995 | 0 |
| 6-Speed Automatic | 3.4 | 259 | 0 | 30 | 0 | 2003 | 0 |
| 6-Speed Manual | 2 | 91.4 | 0 | 20 | 0 | 1995 | 0 |
| CVT | 8 | 240.5 | 0 | -25 | 0 | 1998 | 0 |
| Automated Manual Trans | 12 | 120.4 | 0 | 0 | 0 | 2004 | 0 |
| Roller Cam | 2 | 16 | 0 | 0 | 0 | 1980 | 0 |
| OHC/AdvOHV-4 Cylinder | 3 | 93.1 | 0 | 0 | 0 | 1980 | 2.5 |
| OHC/AdvOHV-6 Cylinder | 3 | 108.9 | 0 | 0 | 0 | 1987 | 2.5 |
| OHC/AdvOHV-8 Cylinder | 3 | 124.7 | 0 | 0 | 0 | 1986 | 2.5 |
| 4-Valve/4-Cylinder | 8.8 | 205 | 0 | 10 | 0 | 1988 | 4.25 |
| 4-Valve/6-Cylinder | 8.8 | 280 | 0 | 15 | 0 | 1992 | 4.25 |
| 4 Valve/8-Cylinder | 8.8 | 320 | 0 | 20 | 0 | 1994 | 4.25 |
| 5 Valve/6-Cylinder | 9 | 300 | 0 | 18 | 0 | 1998 | 5 |
| VVT-4 Cylinder | 3 | 35 | 0 | 10 | 0 | 1994 | 1.25 |
| VVT-6 Cylinder | 3 | 87.5 | 0 | 20 | 0 | 1993 | 1.25 |
| VVT-8 Cylinder | 3 | 90 | 0 | 20 | 0 | 1993 | 1.25 |
| VVL-4 Cylinder | 3 | 144.3 | 0 | 25 | 0 | 1997 | 2.5 |
| VVL-6 Cylinder | 3 | 220.0 | 0 | 40 | 0 | 2000 | 2.5 |
| VVL-8 Cylinder | 3 | 285.0 | 0 | 50 | 0 | 2000 | 2.5 |
| Camless Valve Actuation-4cyl | 15.1 | 363.8 | 0 | 35 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-6cyl | 15.1 | 513.0 | 0 | 55 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-8cyl | 15.1 | 675.5 | 0 | 75 | 0 | 2020 | 3.25 |
| Cylinder Deactivation | 7.5 | 60.1 | 0 | 10 | 0 | 2004 | 0 |
| Turbocharging/ Supercharging | 7.5 | 324.7 | 0 | -100 | 0 | 1980 | 3.75 |
| Engine Friction Reduction I | 2.3 | 54 | 0 | 0 | 0 | 1992 | 0.75 |
| Engine Friction Reduction II | 3.5 | 60.9 | 0 | 0 | 0 | 2000 | 1.75 |
| Engine Friction Reduction III | 5 | 52.1 | 0 | 0 | 0 | 2008 | 1.75 |
| Engine Friction Reduction IV | 6.5 | 177 | 0 | 0 | 0 | 2016 | 2.25 |
| Stoichiometric GDI/4-Cylinder | 2.9 | 234.9 | 0 | 20 | 0 | 2006 | 2.5 |
| Stoichiometric GDI/6-Cylinder | 2.9 | 307.9 | 0 | 30 | 0 | 2006 | 2.5 |
| Lean Burn GDI | 10 | 640.5 | 0 | 20 | 0 | 2020 | 0 |
| 5W-30 Engine Oil | 1 | 3 | 0 | 0 | 0 | 1998 | 0 |
| 5W-20 Engine Oil | 2 | 16.7 | 0 | 0 | 0 | 2003 | 0 |
| OW-20 Engine Oil | 3.1 | 150 | 0 | 0 | 0 | 2030 | 0 |
| Electric Power Steering | 2 | 84.2 | 0 | 0 | 0 | 2004 | 0 |
| Improved Alternator | 0.3 | 15 | 0 | 0 | 0 | 2005 | 0 |
| Improved Oil/Water Pump | 0.5 | 10 | 0 | 0 | 0 | 2000 | 0 |
| Electric Oil/Water Pump | 1 | 93.4 | 0 | 0 | 0 | 2007 | 0 |
| Tires II | 2 | 6.1 | 0 | -8 | 0 | 1995 | 0 |
| Tires III | 3.5 | 12.3 | 0 | -12 | 0 | 2005 | 0 |
| Tires IV | 5 | 16.9 | 0 | -16 | 0 | 2015 | 0 |
| Front Wheel Drive | 6 | 250 | 0 | 0 | -6 | 1980 | 0 |
| Four Wheel Drive Improvements | 2 | 93.8 | 0 | 0 | -1 | 2000 | 0 |
| 42V-Launch Assist and Regen | 7.5 | 280 | 0 | 80 | 0 | 2005 | -2.5 |
| 42V-Engine Off at Idle | 7.5 | 496.6 | 0 | 45 | 0 | 2005 | 0 |
| Tier 2 Emissions Technology | -1 | 120 | 0 | 20 | 0 | 2006 | 0 |
| Increased Size/Weight | -1.7 | 0 | 0 | 0 | 2.55 | 2003 | 0 |
| Variable Compression Ratio | 4 | 350 | 0 | 25 | 0 | 2015 | 0 |

Source:  Energy and Environmental Analysis, *Documentation of Technology included in the NEMS Fuel Economy Model for  Passenger Cars and Light Trucks* (September, 2002). National Research Council, *Effectiveness and Impact of Corporate Average Fuel Economy (CAFE) Standards* (Copyright 2002).  National Highway Traffic Safety Administration*, Corporate Average Fuel Economy for MY 2011-2015 Passenger Cars and Light Trucks* (April 2008). U.S. Environmental Protection Agency, *Interim Report: New Powertrain Technologies and Their Projected Costs* (October 2005)

## Table 7.12.  High Technology Matrix For Light Trucks

| | Fractional Fuel Efficiency Change | Incremental Cost (1990$) | Incremental Cost ($/Unit Wt.) | Incremenal Weight (Lbs.) | Incremental Weight (Lbs./Unit Wt.) | Introduction Year | Fractional Horse-power Change |
|---|---|---|---|---|---|---|---|
| Unit Body Construction | 4 | 100 | 0 | 0 | -6 | 1980 | 0 |
| Material Substitution II | 3.3 | 0 | 0.4 | 0 | -5 | 1994 | 0 |
| Material Substitution III | 6.6 | 0 | 0.6 | 0 | -10 | 2002 | 0 |
| Material Substitution IV | 9.9 | 0 | 0.9 | 0 | -15 | 2010 | 0 |
| Material Substitution V | 13.2 | 0 | 1.2 | 0 | -20 | 2018 | 0 |
| Drag Reduction II | 2.3 | 32 | 0 | 0 | 0 | 1992 | 0 |
| Drag Reduction III | 4.1 | 57 | 0 | 0 | 0.2 | 1998 | 0 |
| Drag Reduction IV | 6.4 | 89 | 0 | 0 | 0.5 | 2006 | 0 |
| Drag Reduction V | 7.8 | 109 | 0 | 0 | 1 | 2014 | 0 |
| Roll-Over Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2006 | 0 |
| Side Impact Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2006 | 0 |
| Adv Low Loss Torque Converter | 2 | 25 | 0 | 0 | 0 | 2005 | 0 |
| Early Torque Converter Lockup | 0.5 | 25.6 | 0 | 0 | 0 | 2003 | 0 |
| Aggressive Shift Logic | 2.0 | 35 | 0 | 0 | 0 | 1999 | 0 |
| 4-Speed Automatic | 4.5 | 285 | 0 | 10 | 0 | 1980 | 0 |
| 5-Speed Automatic | 8 | 106.5 | 0 | 20 | 0 | 1995 | 0 |
| 6-Speed Automatic | 3.4 | 259 | 0 | 30 | 0 | 2003 | 0 |
| 6-Speed Manual | 2 | 91.4 | 0 | 20 | 0 | 1995 | 0 |
| CVT | 8 | 130.0 | 0 | -25 | 0 | 1998 | 0 |
| Automated Manual Trans | 3.4 | 120.4 | 0 | 0 | 0 | 2004 | 0 |
| Roller Cam | 2 | 16 | 0 | 0 | 0 | 1985 | 0 |
| OHC/AdvOHV-4 Cylinder | 3.5 | 93.1 | 0 | 0 | 0 | 1980 | 2.5 |
| OHC/AdvOHV-6 Cylinder | 3.5 | 108.9 | 0 | 0 | 0 | 1990 | 2.5 |
| OHC/AdvOHV-8 Cylinder | 3.5 | 124.7 | 0 | 0 | 0 | 1990 | 4.25 |
| 4-Valve/4-Cylinder | 7.0 | 205 | 0 | 10 | 0 | 1998 | 4.25 |
| 4-Valve/6-Cylinder | 7.0 | 280 | 0 | 15 | 0 | 2000 | 4.25 |
| 4 Valve/8-Cylinder | 7.0 | 320 | 0 | 20 | 0 | 2000 | 4.25 |
| 5 Valve/6-Cylinder | 7.0 | 300 | 0 | 18 | 0 | 2010 | 5 |
| VVT-4 Cylinder | 3 | 48.9 | 0 | 10 | 0 | 1998 | 1.25 |
| VVT-6 Cylinder | 3 | 97.8 | 0 | 20 | 0 | 1997 | 1.25 |
| VVT-8 Cylinder | 3 | 97.8 | 0 | 20 | 0 | 1997 | 1.25 |
| VVL-4 Cylinder | 3 | 144.3 | 0 | 25 | 0 | 2002 | 2.5 |
| VVL-6 Cylinder | 3 | 220 | 0 | 40 | 0 | 2001 | 2.5 |
| VVL-8 Cylinder | 3 | 285 | 0 | 50 | 0 | 2006 | 2.5 |
| Camless Valve Actuation-4cyl | 15.1 | 363.8 | 0 | 35 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-6cyl | 15.1 | 513 | 0 | 55 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-8cyll | 15.1 | 657.5 | 0 | 75 | 0 | 2020 | 3.25 |
| Cylinder Deactivation | 7.5 | 60.1 | 0 | 10 | 0 | 2004 | 0 |
| Turbocharging/Supercharging | 7.5 | 339 | 0 | -100 | 0 | 1987 | 3.75 |
| Engine Friction Reduction I | 2.5 | 25 | 0 | 0 | 0 | 1992 | 0.75 |
| Engine Friction Reduction II | 3.5 | 31.2 | 0 | 0 | 0 | 2000 | 1.25 |
| Engine Friction Reduction III | 5 | 62.5 | 0 | 0 | 0 | 2010 | 1.75 |
| Engine Friction Reduction IV | 6.5 | 67.5 | 0 | 0 | 0 | 2016 | 2.75 |
| Stoichiometric GDI/4-Cylinder | 2.9 | 234.9 | 0 | 20 | 0 | 2008 | 2.5 |
| Stoichiometric GDI/6-Cylinder | 2.9 | 307.9 | 0 | 30 | 0 | 2010 | 2.5 |
| Lean Burn GDI | 11.5 | 640.5 | 0 | 20 | 0 | 2010 | 0 |
| 5W-30 Engine Oil | 0.8 | 4 | 0 | 0 | 0 | 1998 | 0 |
| 5W-20 Engine Oil | 2 | 16.7 | 0 | 0 | 0 | 2003 | 0 |
| OW-20 Engine Oil | 3.1 | 150 | 0 | 0 | 0 | 2030 | 0 |
| Electric Power Steering | 2 | 84.2 | 0 | 0 | 0 | 2005 | 0 |
| Improved Alternator | 0.3 | 15 | 0 | 0 | 0 | 2005 | 0 |
| Improved Oil/Water Pump | 0.5 | 10 | 0 | 0 | 0 | 2000 | 0 |
| Electric Oil/Water Pump | 1 | 93.4 | 0 | 0 | 0 | 2008 | 0 |
| Tires II | 0.0 | 30 | 0 | -8 | 0 | 1995 | 0 |
| Tires III | 1.5 | 5.6 | 0 | -12 | 0 | 2005 | 0 |
| Tires IV | 3.5 | 11.8 | 0 | -16 | 0 | 2015 | 0 |
| Front Wheel Drive | 2 | 250 | 0 | 0 | -3 | 1984 | 0 |
| Four Wheel Drive Improvements | 1.5 | 93.8 | 0 | 0 | -1 | 2000 | 0 |
| 42V-Launch Assist and Regen | 7.5 | 280 | 0 | 80 | 0 | 2005 | -2.5 |
| 42V-Engine Off at Idle | 7.5 | 434.9 | 0 | 45 | 0 | 2005 | 0 |
| Tier 2 EmissionsTechnology | -1 | 160 | 0 | 20 | 0 | 2006 | 0 |
| Increased Size/Weight | -2.5 | 0 | 0 | 0 | 3.75 | 2006 | 0 |
| Variable Compression Ratio | 4 | 350 | 0 | 25 | 0 | 2015 | 0 |

Source:  Energy and Enviromental Analysis, *Documentation of Technology included in the NEMS Fuel Economy Model for  Passenger Cars and Light Trucks* (September, 2002). National Research Council, *Effectiveness and Impact of Corporate Average Fuel Economy (CAFE) Standards* (Copyright 2002). National Highway Traffic Safety Administration, *Corporate Average Fuel Economy for MY 2011-2015 Passenger Cars and Light Trucks* (April 2008). U.S. Environmental Protection Agency, *Interim Report: New Powertrain Technologies and Their Projected Costs* (October 2005)

## Table 7.13. Low Technology Matrix For Cars[1]

| | Fractional Fuel Efficiency Change | Incremental Cost (1990$) | Incremental Cost ($/Unit Wt.) | Incremental Weight (Lbs.) | Incremental Weight (Lbs./Unit Wt.) | Introduction Year | Fractional Horse-power Change |
|---|---|---|---|---|---|---|---|
| Unit Body Construction | 4 | 100 | 0 | 0 | -6 | 1980 | 0 |
| Material Substitution II | 3.3 | 0 | 0.4 | 0 | -5 | 1990 | 0 |
| Material Substitution III | 6.6 | 0 | 0.6 | 0 | -10 | 1998 | 0 |
| Material Substitution IV | 9.9 | 0 | 0.9 | 0 | -15 | 2006 | 0 |
| Material Substitution V | 13.2 | 0 | 1.2 | 0 | -20 | 2014 | 0 |
| Drag Reduction II | 1.5 | 16.0 | 0 | 0 | 0 | 1988 | 0 |
| Drag Reduction III | 3.0 | 32.0 | 0 | 0 | 0.2 | 1992 | 0 |
| Drag Reduction IV | 4.2 | 45.0 | 0 | 0 | 0.5 | 2000 | 0 |
| Drag Reduction V | 5.0 | 53.5 | 0 | 0 | 1 | 2010 | 0 |
| Roll-Over Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2004 | 0 |
| Side Impact Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2004 | 0 |
| Adv Low Loss Torque Converter | 2 | 25 | 0 | 0 | 0 | 1999 | 0 |
| Early Torque Converter Lockup | 0.5 | 25.6 | 0 | 0 | 0 | 2002 | 0 |
| Aggressive Shift Logic | 1.0 | 30.5 | 0 | 0 | 0 | 1999 | 0 |
| 4-Speed Automatic | 4.5 | 285 | 0 | 10 | 0 | 1980 | 0 |
| 5-Speed Automatic | 2.5 | 106.5 | 0 | 20 | 0 | 1995 | 0 |
| 6-Speed Automatic | 2 | 259 | 0 | 30 | 0 | 2003 | 0 |
| 6-Speed Manual | 0.5 | 91.4 | 0 | 20 | 0 | 1995 | 0 |
| CVT | 2 | 240.5 | 0 | -25 | 0 | 1998 | 0 |
| Automated Manual Trans | 4.0 | 175.0 | 0 | 0 | 0 | 2004 | 0 |
| Roller Cam | 2 | 16 | 0 | 0 | 0 | 1980 | 0 |
| OHC/AdvOHV-4 Cylinder | 3.5 | 105.0 | 0 | 0 | 0 | 1980 | 2.5 |
| OHC/AdvOHV-6 Cylinder | 1.5 | 122.5 | 0 | 0 | 0 | 1987 | 2.5 |
| OHC/AdvOHV-8 Cylinder | 1.5 | 140.0 | 0 | 0 | 0 | 1986 | 2.5 |
| 4-Valve/4-Cylinder | 8 | 205 | 0 | 10 | 0 | 1988 | 4.25 |
| 4-Valve/6-Cylinder | 8 | 280 | 0 | 15 | 0 | 1992 | 4.25 |
| 4 Valve/8-Cylinder | 8 | 320 | 0 | 20 | 0 | 1994 | 4.25 |
| 5 Valve/6-Cylinder | 8 | 300 | 0 | 18 | 0 | 1998 | 5 |
| VVT-4 Cylinder | 1.0 | 50.4 | 0 | 10 | 0 | 1994 | 1.25 |
| VVT-6 Cylinder | 1.0 | 114.4 | 0 | 20 | 0 | 1993 | 1.25 |
| VVT-8 Cylinder | 1.0 | 178.5 | 0 | 20 | 0 | 1993 | 1.25 |
| VVL-4 Cylinder | 2.0 | 178 | 0 | 25 | 0 | 1997 | 2.5 |
| VVL-6 Cylinder | 2.0 | 270 | 0 | 40 | 0 | 2000 | 2.5 |
| VVL-8 Cylinder | 2.0 | 349 | 0 | 50 | 0 | 2000 | 2.5 |
| Camless Valve Actuation-4cyl | 12.1 | 433 | 0 | 35 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-6cyl | 12.1 | 609.4 | 0 | 55 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-8cyl | 12.1 | 785.8 | 0 | 75 | 0 | 2020 | 3.25 |
| Cylinder Deactivation | 4.0 | 245 | 0 | 10 | 0 | 2004 | 0 |
| Turbocharging/Supercharging | 5.0 | 324.7 | 0 | -100 | 0 | 1980 | 3.75 |
| Engine Friction Reduction I | 2.3 | 54 | 0 | 0 | 0 | 1992 | 0.75 |
| Engine Friction Reduction II | 2.0 | 60.9 | 0 | 0 | 0 | 2000 | 1.25 |
| Engine Friction Reduction III | 3.0 | 196.4 | 0 | 0 | 0 | 2008 | 1.75 |
| Engine Friction Reduction IV | 6.5 | 177 | 0 | 0 | 0 | 2016 | 2.25 |
| Stoichiometric GDI/4-Cylinder | 1.9 | 352 | 0 | 20 | 0 | 2006 | 2.5 |
| Stoichiometric GDI/6-Cylinder | 1.9 | 447.0 | 0 | 30 | 0 | 2006 | 2.5 |
| Lean Burn GDI | 10.0 | 640.5 | 0 | 20 | 0 | 2020 | 0 |
| 5W-30 Engine Oil | 0.5 | 6.0 | 0 | 0 | 0 | 1998 | 0 |
| 5W-20 Engine Oil | 2 | 16.7 | 0 | 0 | 0 | 2003 | 0 |
| OW-20 Engine Oil | 3.1 | 150 | 0 | 0 | 0 | 2030 | 0 |
| Electric Power Steering | 1.0 | 96.2 | 0 | 0 | 0 | 2004 | 0 |
| Improved Alternator | 0.3 | 15 | 0 | 0 | 0 | 2005 | 0 |
| Improved Oil/Water Pump | 0.5 | 10 | 0 | 0 | 0 | 2000 | 0 |
| Electric Oil/Water Pump | 1 | 93.4 | 0 | 0 | 0 | 2007 | 0 |
| Tires II | 1.5 | 35 | 0 | -8 | 0 | 1995 | 0 |
| Tires III | 1.5 | 35 | 0 | -12 | 0 | 2005 | 0 |
| Tires IV | 1.5 | 35 | 0 | -16 | 0 | 2015 | 0 |
| Front Wheel Drive | 6 | 250 | 0 | 0 | -6 | 1980 | 0 |
| Four Wheel Drive Improvements | 1.3 | 93.8 | 0 | 0 | -1 | 2000 | 0 |
| 42V-Launch Assist and Regen | 7.5 | 280 | 0 | 80 | 0 | 2005 | -2.5 |
| 42V-Engine Off at Idle | 5.5 | 496.6 | 0 | 45 | 0 | 2005 | 0 |
| Tier 2 Emissions Technology | -1 | 120 | 0 | 20 | 0 | 2006 | 0 |
| Increased Size/Weight | -1.7 | 0 | 0 | 0 | 2.55 | 2006 | 0 |
| Variable Compression Ratio | 4 | 350 | 0 | 25 | 0 | 2015 | 0 |

[1] Fractional changes refer to the percentage change from the 1990 values.

Sources: Energy and Environment Analysis, *Documentation of Technology included in the NEMS Fuel Economy Model for Passenger Cars and Light Trucks* (September, 2002). National Research Council, *Effectiveness and Impact of Corporate Average Fuel Economy (CAFE) Standards* (Copyright 2002). National Highway Traffic Safety Administration, *Corporate Average Fuel Economy for MY 2011-2015 Passenger Cars and Light Trucks* (April 2008). U.S. Environmental Protection Agency, *Interim Report: New Powertrain Technologies and Their Projected Costs* (October 2005)

## Table 7.14.  Low Technology Matrix For Light Trucks[1]

| | Fractional Fuel Efficiency Change | Incremental Cost (1990$) | Incremental Cost ($/UnitWt.) | Incremental Weight (Lbs.) | Incremental Weight (Lbs./UnitWt.) | Introduction Year | Fractional Horse-power Change |
|---|---|---|---|---|---|---|---|
| Unit Body Construction | 4 | 100 | 0 | 0 | -6 | 1980 | 0 |
| Material Substitution II | 3.3 | 0 | 0.4 | 0 | -5 | 1994 | 0 |
| Material Substitution III | 6.6 | 0 | 0.6 | 0 | -10 | 2002 | 0 |
| Material Substitution IV | 9.9 | 0 | 0.9 | 0 | -15 | 2010 | 0 |
| Material Substitution V | 13.2 | 0 | 1.2 | 0 | -20 | 2018 | 0 |
| Drag Reduction II | 1.5 | 32 | 0 | 0 | 0 | 1992 | 0 |
| Drag Reduction III | 4.1 | 57 | 0 | 0 | 0.2 | 1998 | 0 |
| Drag Reduction IV | 6.4 | 89 | 0 | 0 | 0.5 | 2006 | 0 |
| Drag Reduction V | 7.8 | 109 | 0 | 0 | 1 | 2014 | 0 |
| Roll-Over Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2006 | 0 |
| Side Impact Technology | -1.5 | 100 | 0 | 0 | 2.2 | 2006 | 0 |
| Adv Low Loss Torque Converter | 2 | 25 | 0 | 0 | 0 | 2005 | 0 |
| Early Torque Converter Lockup | 0.5 | 25.6 | 0 | 0 | 0 | 2003 | 0 |
| Aggressive Shift Logic | 1.5 | 30.5 | 0 | 0 | 0 | 1999 | 0 |
| 4-Speed Automatic | 4.5 | 285 | 0 | 10 | 0 | 1980 | 0 |
| 5-Speed Automatic | 2.5 | 112 | 0 | 20 | 0 | 1995 | 0 |
| 6-Speed Automatic | 2.0 | 259.0 | 0 | 30 | 0 | 2003 | 0 |
| 6-Speed Manual | 0.5 | 91.4 | 0 | 20 | 0 | 1995 | 0 |
| CVT | 3.0 | 200 | 0 | -25 | 0 | 1998 | 0 |
| Automated Manual Trans | 3.4 | 157.5 | 0 | 0 | 0 | 2004 | 0 |
| Roller Cam | 2 | 16 | 0 | 0 | 0 | 1985 | 0 |
| OHC/AdvOHV-4 Cylinder | 1.8 | 105 | 0 | 0 | 0 | 1980 | 2.5 |
| OHC/AdvOHV-6 Cylinder | 1.8 | 122.5 | 0 | 0 | 0 | 1990 | 2.5 |
| OHC/AdvOHV-8 Cylinder | 1.8 | 140 | 0 | 0 | 0 | 1990 | 2.5 |
| 4-Valve/4-Cylinder | 7 | 205 | 0 | 10 | 0 | 1998 | 4.25 |
| 4-Valve/6-Cylinder | 7 | 280 | 0 | 15 | 0 | 2000 | 4.25 |
| 4 Valve/8-Cylinder | 7 | 320 | 0 | 20 | 0 | 2000 | 4.25 |
| 5 Valve/6-Cylinder | 7 | 300 | 0 | 18 | 0 | 2010 | 5 |
| VVT-4 Cylinder | 1.0 | 48.9 | 0 | 10 | 0 | 1998 | 1.25 |
| VVT-6 Cylinder | 1.0 | 97.8 | 0 | 20 | 0 | 1997 | 1.25 |
| VVT-8 Cylinder | 1.0 | 97.8 | 0 | 20 | 0 | 1997 | 1.25 |
| VVL-4 Cylinder | 2.0 | 178 | 0 | 25 | 0 | 2002 | 2.5 |
| VVL-6 Cylinder | 2.0 | 270 | 0 | 40 | 0 | 2001 | 2.5 |
| VVL-8 Cylinder | 2.0 | 349 | 0 | 50 | 0 | 2006 | 2.5 |
| Camless Valve Actuation-4cyl | 12.1 | 433 | 0 | 35 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-6cyl | 12.1 | 609.4 | 0 | 55 | 0 | 2020 | 3.25 |
| Camless Valve Actuation-8cyl | 12.1 | 785.8 | 0 | 75 | 0 | 2020 | 3.25 |
| Cylinder Deactivation | 4.0 | 190.4 | 0 | 10 | 0 | 2004 | 0 |
| Turbocharging/Supercharging | 5.0 | 650 | 0 | -100 | 0 | 1987 | 3.75 |
| Engine Friction Reduction I | 2.0 | 36 | 0 | 0 | 0 | 1992 | 0.75 |
| Engine Friction Reduction II | 1.5 | 63 | 0 | 0 | 0 | 2000 | 1.25 |
| Engine Friction Reduction III | 1.5 | 235.7 | 0 | 0 | 0 | 2010 | 1.75 |
| Engine Friction Reduction IV | 1.5 | 177 | 0 | 0 | 0 | 2016 | 2.25 |
| Stoichiometric GDI/4-Cylinder | 1.9 | 352.8 | 0 | 20 | 0 | 2008 | 2.5 |
| Stoichiometric GDI/6-Cylinder | 1.9 | 447.4 | 0 | 30 | 0 | 2010 | 2.5 |
| Lean Burn GDI | 10.0 | 640.5 | 0 | 20 | 0 | 2010 | 0 |
| 5W-30 Engine Oil | 0.5 | 6.0 | 0 | 0 | 0 | 1998 | 0 |
| 5W-20 Engine Oil | 1.0 | 37.5 | 0 | 0 | 0 | 2003 | 0 |
| OW-20 Engine Oil | 3.1 | 150 | 0 | 0 | 0 | 2030 | 0 |
| Electric Power Steering | 1.0 | 96.2 | 0 | 0 | 0 | 2005 | 0 |
| Improved Alternator | 0.3 | 15 | 0 | 0 | 0 | 2005 | 0 |
| Improved Oil/Water Pump | 0.5 | 10 | 0 | 0 | 0 | 2000 | 0 |
| Electric Oil/Water Pump | 1 | 93.4 | 0 | 0 | 0 | 2008 | 0 |
| Tires II | 0.0 | 30 | 0 | -8 | 0 | 1995 | 0 |
| Tires III | 1.0 | 35 | 0 | -12 | 0 | 2005 | 0 |
| Tires IV | 1.0 | 35 | 0 | -16 | 0 | 2015 | 0 |
| Front Wheel Drive | 2 | 250 | 0 | 0 | -3 | 1984 | 0 |
| Four Wheel Drive Improvements | 1.0 | 93.8 | 0 | 0 | -1 | 2000 | 0 |
| 42V-Launch Assist and Regen | 7.5 | 280 | 0 | 80 | 0 | 2005 | -2.5 |
| 42V-Engine Off at Idle | 5.5 | 434.9 | 0 | 45 | 0 | 2005 | 0 |
| Tier 2 Emissions Technology | -1 | 160 | 0 | 20 | 0 | 2006 | 0 |
| Increased Size/Weight | -2.5 | 0 | 0 | 0 | 3.75 | 2006 | 0 |
| Variable Compression Ratio | 4 | 350 | 0 | 25 | 0 | 2015 | 0 |

[1]Fractional changes refer to the percentage change from the 1990 values.
Sources:  Energy and Environment Analysis, *Documentation of Technology included in the NEMS Fuel Economy Model for  Passenger Cars and Light Trucks* (September, 2002).  National Research Council, *Effectiveness and Impact of Corporate Average Fuel Economy (CAFE) Standards* (Copyright 2002).  National Highway Traffic Safety Administration, *Corporate Average Fuel Economy for MY 2011-2015 Passenger Cars and Light Trucks* (April 2008). U.S. Environmental Protection Agency, *Interim Report: New Powertrain Technologies and Their Projected Costs* (October 2005)

## Table 7.15. High Technology Matrix for Freight Trucks

| Technology Type | Medium Light Trucks | | | Medium Heavy Trucks | | | Heavy Trucks | | |
|---|---|---|---|---|---|---|---|---|---|
| | Introduction Year | Capital Cost | Incr. Fuel Econ. Improvement | Introduction Year | Capital Cost | Incr. Fuel Econ. Improvement | Introduction Year | Capital Cost | Incr. Fuel Econ. Improvement |
| Areo dynamic I: Cab top deflector, sloping hood and cab side flares | 2002 | 600.00 | 0.028 | 1995 | 750.00 | 0.028 | 1995 | 750.00 | 0.028 |
| Closing/covering of gap between tractor and trailer, aero dynamic bumper, underside air baffles, wheel well covers | N/A | N/A | 0.000 | 2004 | 800.00 | 0.041 | 2005 | 1500.00 | 0.023 |
| Trailer leading and trailing edge curvatures | N/A | N/A | 0.000 | 2005 | 400.00 | 0.013 | 2005 | 500.00 | 0.016 |
| Aero Dynamics IV: pneumatic blowing | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2010 | 2500.00 | 0.060 |
| Tires I: radials | 1995 | 40.00 | 0.028 | 1995 | 180.00 | 0.028 | 1995 | 300.00 | 0.024 |
| Tires II: low rolling resistance | 2004 | 180.00 | 0.033 | 2005 | 280.00 | 0.033 | 2005 | 550.00 | 0.037 |
| Tires III: super singles | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2005 | 700.00 | 0.028 |
| Tires IV: reduced rolling resistance from pneumatic blowing | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2015 | 500.00 | 0.011 |
| Transmission: lock-up, electronic controls, reduced friction | 2005 | 750.00 | 0.023 | 2005 | 900.00 | 0.023 | 2005 | 1000.00 | 0.023 |
| Diesel Engine I:turbo-charged, direct injection with better thermal management | 2003 | 600.00 | 0.045 | 2004 | 900.00 | 0.072 | N/A | N/A | 0.000 |
| Diesel Engine II:integrated starter/alternator with idle off and limited regenerative breaking | 2005 | 1500.00 | 0.045 | 2005 | 1200.00 | 0.045 | N/A | N/A | 0.000 |
| Diesel Engine III: improved engine iwth lower friction, better injectors, and efficient combustion | 2012 | 2000.00 | 0.080 | 2008 | 2000.00 | 0.082 | N/A | 300.00 | 0.000 |
| Diesel Engine IV: hybrid electric powertrain | 2010 | 6000.00 | 0.360 | 2010 | 7000.00 | 0.360 | N/A | N/A | 0.000 |
| Diesel Engine V: internal friction reduction - iimproved lubricants and bearings | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2005 | 500.00 | 0.018 |
| Diesel Engine VI: increased peak cylinder pressure | N/A | NA | 0.000 | N/A | N/A | 0.000 | 2006 | 1000.00 | 0.036 |
| Diesel Engine VII: improved injectors and more efficient combustion | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2007 | 1500 | 0.054 |
| Diesel Engine VIII: reduce waste heat improved thermal management | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2010 | 2000 | 0.090 |
| Diesel Engine VIII: reduce waste heat and improve thermal management | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2010 | N/A | 0.100 |
| Gasoline Engine I: electronic fuel injection, DOHC, multiple values | 2003 | 700.00 | 0.045 | 2003 | 1000.00 | 0.045 | N/A | N/A | 0.000 |

## Table 7.15. High Technology Matrix for Freight Trucks (cont.)

| Technology Type | Medium Light Trucks | | | Medium Heavy Trucks | | | Heavy Trucks | | |
|---|---|---|---|---|---|---|---|---|---|
| | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment |
| Gasoline Engine II: integrated starter/ alternator with idle off and limited regenerative breaking | 2005 | 1000.00 | 0.045 | 2005 | 1200.00 | 0.072 | N/A | N/A | 0.000 |
| Gasoline Engine III: direct injection (GDI) | 2008 | 700.00 | 0.108 | 2008 | 1000.00 | 0.108 | N/A | N/A | 0.000 |
| Gasoline Engine IV; hybrid electric powertrain | 2010 | 6000.00 | 0.405 | 2010 | 8000.00 | 0.405 | N/A | N/A | 0.000 |
| Weight Reduction I: high strength lightweight materials | 2010 | 1300.00 | 0.045 | 2007 | 2000.00 | 0.045 | 2005 | 2000.00 | 0.090 |
| Diesel Emission-$NO_x$ I: exhaust recicula-ation, timing retard, selective catalytic reduction | 2002 | 250.00 | -0.030 | 2003 | 400.00 | -0.030 | 2003 | 500.00 | -0.030 |
| Diesel Emissions-$NO_x$ II: nitrogen enriched combustion air | 2003 | 500.00 | -0.005 | 2003 | 700.00 | -0.005 | 2003 | 750.00 | -0.005 |
| Diesel Emissions-$NO_x$ III: non-thermal plasma catalyst | 2007 | 1000.00 | -0.010 | 2006 | 1200.00 | -0.010 | 2007 | 1250.00 | -0.010 |
| Diesel Emissions-$NO_x$ IV: $NO_x$ absorber system | 2007 | 1500.00 | -0.020 | 2006 | 2000.00 | -0.020 | 2007 | 2500.00 | -0.020 |
| Diesel Emission-PM I: oxidation catalyst | 2002 | 150.00 | -0.005 | 2002 | 200.00 | -0.005 | 2002 | 250.00 | -0.005 |
| Diesel Emission-PM II: catalytic particulate filter | 2006 | 1000.00 | -0.010 | 2006 | 1250.00 | -0.020 | 2006 | 1500.00 | -0.010 |
| Diesel Emission-HC/CO I:  oxidation catalyst | 2002 | 150.00 | -0.005 | 2002 | 200.00 | -0.005 | 2002 | 250.00 | -0.005 |
| Diesl Emission-HC/CO II:  closed crankcase system | 2005 | 50.00 | 0.000 | 2005 | 65.00 | 0.000 | 2005 | 75.00 | 0.000 |
| Gasoline Emission-PM I:  Improved oxidation catalyst | 2005 | 250.00 | -0.003 | 2005 | 350.00 | -0.003 | N/A | N/A | 0.000 |
| Gasoline Emission-$NO_x$ I:  EGR/spark retard | 2002 | 25.00 | -0.010 | 2002 | 25.00 | -0.010 | N/A | N/A | 0.000 |
| Gasoline Emission-$NO_x$ II:  oxygen sensors | 2003 | 75.00 | 0.000 | 2003 | 75.00 | 0.000 | N/A | N/A | 0.000 |
| Gasoline Emission-$NO_x$ III: secondary air/closed loop system | 2008 | 50.00 | 0.000 | 2008 | 50.00 | 0.000 | N/A | N/A | 0.000 |
| Gasoline Emission-HC/CO I: oxygen sensors | 2003 | 75.00 | 0.000 | 2003 | 75.00 | 0.000 | N/A | N/A | 0.000 |

**Table 7.15. High Technology Matrix for Freight Trucks (cont.)**

| Technology Type | Medium Light Trucks | | | Medium Heavy Trucks | | | Heavy Trucks | | |
|---|---|---|---|---|---|---|---|---|---|
| | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment |
| Gasoline Emission-HC/CO II: evap. canister w/improved vaccum, materials, and connectors | 2003 | 50.00 | 0.000 | 2003 | 50.00 | 0.000 | N/A | N/A | 0.000 |
| Gasoline Emission-HC/CO III: oxidation catalyst | 2005 | 250.00 | -0.003 | 2005 | 350.00 | -0.003 | N/A | N/A | 0.000 |

1. Payback period is same for the three modes.

## Table 7.16. Low Technology Matrix for Freight Trucks

| Technology Type | Medium Light Trucks | | | Medium Heavy Trucks | | | Heavy Trucks | | |
|---|---|---|---|---|---|---|---|---|---|
| | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment |
| Areo dynamic I: Cab top deflector, sloping hood and cab side flares | 2002 | 600.00 | 0.018 | 1995 | 750.00 | 0.018 | 1995 | 750.00 | 0.013 |
| Closing/covering of gap between tractor and trailer, aero dynamic bumper, underside air baffles, wheel well covers | N/A | N/A | 0.000 | 2004 | 800.00 | 0.031 | 2005 | 1500.00 | 0.023 |
| Trailer leading and trailing edge curvatures | N/A | N/A | 0.000 | 2005 | 400.00 | 0.005 | 2005 | 500.00 | 0.008 |
| Aero Dynamics IV: pneumatic blowing | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2010 | 2500.00 | 0.030 |
| Tires I: radials | 1995 | 40.00 | 0.008 | 1995 | 180.00 | 0.008 | 1995 | 300.00 | 0.004 |
| Tires II: low rolling resistance | 2004 | 180.00 | 0.013 | 2005 | 280.00 | 0.033 | 2005 | 550.00 | 0.017 |
| Tires III: super singles | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2005 | 700.00 | 0.008 |
| Tires IV: reduced rolling resistance from pneumatic blowing | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2015 | 500.00 | 0.011 |
| Transmission: lock-up, electronic controls, reduced friction | 2005 | 750.00 | 0.013 | 2005 | 900.00 | 0.013 | 2005 | 1000.00 | 0.013 |
| Diesel Engine I:turbo-charged, direct injection with better thermal management | 2003 | 800.00 | 0.045 | 2004 | 1100.00 | 0.072 | N/A | N/A | 0.000 |
| Diesel Engine II: integrated starter/alternator with idle off and limited regenerative breaking | 2005 | 1500.00 | 0.045 | 2005 | 1200.00 | 0.045 | N/A | N/A | 0.000 |
| Diesel Engine III: improved engine iwth lower friction, better injectors, and efficient combustion | 2012 | 2000.00 | 0.070 | 2008 | 2000.00 | 0.062 | N/A | 300.00 | 0.000 |
| Diesel Engine IV: hybrid electric powertrain | 2010 | 6000.00 | 0.360 | 2010 | 9000.00 | 0.360 | N/A | N/A | 0.000 |
| Diesel Engine V: internal friction reduction - iimproved lubricants and bearings | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2005 | 500.00 | 0.018 |
| Diesel Engine VI: increased peak cylinder pressure | N/A | NA | 0.000 | N/A | N/A | 0.000 | 2006 | 1000.00 | 0.036 |
| Diesel Engine VII: improved injectors and more efficient combustion | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2007 | 1500 | 0.054 |
| Diesel Engine VIII: reduce waste heat improved thermal management | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2010 | 2000 | 0.090 |
| Diesel Engine VIII: reduce waste heat and improve thermal management | N/A | N/A | 0.000 | N/A | N/A | 0.000 | 2010 | N/A | 0.100 |

**Table 7.16. Low Technology Matrix for Freight Trucks (cont.)**

| Technology Type | Medium Light Trucks | | | Medium Heavy Trucks | | | Heavy Trucks | | |
|---|---|---|---|---|---|---|---|---|---|
| | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment |
| Gasoline Engine I: electronic fuel injection, DOHC, multiple values | 2003 | 700.00 | 0.045 | 2003 | 1000.00 | 0.045 | N/A | N/A | 0.000 |
| Gasoline Engine II: integrated starter/ alternator with idle off and limited regenerative breaking | 2005 | 1000.00 | 0.045 | 2005 | 1200.00 | 0.072 | N/A | N/A | 0.000 |
| Gasoline Engine III: direct injection (GDI) | 2008 | 700.00 | 0.108 | 2008 | 1000.00 | 0.108 | N/A | N/A | 0.000 |
| Gasoline Engine IV; hybrid electric powertrain | 2010 | 6000.00 | 0.405 | 2010 | 8000.00 | 0.405 | N/A | N/A | 0.000 |
| Weight Reduction I: high strength lightweight materials | 2010 | 1300.00 | 0.045 | 2007 | 2000.00 | 0.045 | 2005 | 2000.00 | 0.090 |
| Diesel Emission-$NO_x$ I: exhaust recirculation, timing retard, selective catalytic reduction | 2002 | 250.00 | -0.050 | 2003 | 400.00 | -0.050 | 2003 | 500.00 | -0.050 |
| Diesel Emissions-$NO_x$ II: nitrogen enriched combustion air | 2003 | 500.00 | -0.005 | 2003 | 700.00 | -0.005 | 2003 | 750.00 | -0.005 |
| Diesel Emissions-$NO_x$ III: non-thermal plasma catalyst | 2007 | 1000.00 | -0.020 | 2006 | 1200.00 | -0.020 | 2007 | 1250.00 | -0.020 |
| Diesel Emissions-$NO_x$ IV: $NO_x$ absorber system | 2007 | 1500.00 | -0.040 | 2006 | 2000.00 | -0.040 | 2007 | 2500.00 | -0.040 |
| Diesel Emission-PM I: oxidation catalyst | 2002 | 150.00 | -0.005 | 2002 | 200.00 | -0.005 | 2002 | 250.00 | -0.005 |
| Diesel Emission-PM II: catalytic particulate filter | 2006 | 1000.00 | -0.020 | 2006 | 1250.00 | -0.030 | 2006 | 1500.00 | -0.020 |
| Diesel Emission-HC/CO I: oxidation catalyst | 2002 | 150.00 | -0.005 | 2002 | 200.00 | -0.005 | 2002 | 250.00 | -0.005 |
| Diesl Emission- HC/CO II: closed crankcase system | 2005 | 50.00 | 0.000 | 2005 | 65.00 | 0.000 | 2005 | 75.00 | 0.000 |
| Gasoline Emission- PM I: Improved oxidation catalyst | 2005 | 250.00 | -0.003 | 2005 | 350.00 | -0.003 | N/A | N/A | 0.000 |
| Gasoline Emission-$NO_x$ I: EGR/spark retard | 2002 | 25.00 | -0.020 | 2002 | 25.00 | -0.020 | N/A | N/A | 0.000 |
| Gasoline Emission-$NO_x$ II: oxygen sensors | 2003 | 75.00 | 0.000 | 2003 | 75.00 | 0.000 | N/A | N/A | 0.000 |
| Gasoline Emission-$NO_x$ III: secondary air/closed loop system | 2008 | 50.00 | 0.000 | 2008 | 50.00 | 0.000 | N/A | N/A | 0.000 |

**Table 7.16. Low Technology Matrix for Freight Trucks (cont.)**

| Technology Type | Medium Light Trucks | | | Medium Heavy Trucks | | | Heavy Trucks | | |
|---|---|---|---|---|---|---|---|---|---|
| | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment | Introduction Year | Capital Cost | Incr. Fuel Econ. Improve-ment |
| Gasoline Emission-HC/CO I: oxygen sensors | 2003 | 75.00 | 0.000 | 2003 | 75.00 | 0.000 | N/A | N/A | 0.000 |
| Gasoline Emission-HC/CO II: evap. canister w/improved vaccum, materials, and connectors | 2003 | 50.00 | 0.000 | 2003 | 50.00 | 0.000 | N/A | N/A | 0.000 |
| Gasoline Emission-HC/CO III: oxidation catalyst | 2005 | 250.00 | -0.003 | 2005 | 350.00 | -0.003 | N/A | N/A | 0.000 |

1. Payback period is same for the three modes.

**Table 7.17.  High Technology Matrix for Air Travel**

| Technology | Introduction Year | Fractional Efficiency Improvement | Jet Fuel Trigger Price (87$/gal) |
|---|---|---|---|
| Technology #1 | 2008 | 0.03 | 1.34 |
| Technology #2 | 2009 | 0.07 | 1.34 |
| Technology #3 | 2015 | 0.11 | 1.34 |
| Technology #4 | 2020 | 0.15 | 1.34 |
| Technology #5 | 2018 | 0.22 | 1.34 |
| Technology #6 | 2018 | 0.10 | 1.34 |
| Technology #7 | 2025 | 0.00 | 1.00 |
| Technology #8 | 2020 | 0.10 | 0.00 |
| Technology #9 | 9999 | 0.00 | 0.00 |

Source: Jet Information Services, 2008 World Jet Inventory, data tables (2008).  Energy Information Administration, *Transportation Sector Model of the National Energy Modeling System, Model Documentation 2008*, DOE/EIA-M070(2008), (Washington, DC, 2008).

**Table 7.18.  Low Technology Matrix for Air Travel**

| Technology | Introduction Year | Fractional Efficiency Improvement | Jet Fuel Trigger Price (87$/gal) |
|---|---|---|---|
| Technology #1 | 2008 | 0.03 | 1.34 |
| Technology #2 | 2019 | 0.07 | 1.34 |
| Technology #3 | 2025 | 0.11 | 1.34 |
| Technology #4 | 9999 | 0.00 | 1.34 |
| Technology #5 | 2018 | 0.10 | 1.34 |
| Technology #6 | 2018 | 0.10 | 1.34 |
| Technology #7 | 9999 | 0.00 | 1.00 |
| Technology #8 | 9999 | 0.00 | 0.00 |
| Technology #9 | 9999 | 0.00 | 0.00 |

Source: et Information Services, 2008 World Jet Inventory, data tables (2008).  Energy Information Administration, *Transportation Sector Model of the National Energy Modeling System, Model Documentation 2008*, DOE/EIA-M070(2008), (Washington, DC, 2008).

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# Electricity Market Module

The NEMS Electricity Market Module (EMM) represents the capacity planning, dispatching, and pricing of electricity. It is composed of four submodules—electricity capacity planning, electricity fuel dispatching, load and demand electricity, and electricity finance and pricing. It includes nonutility capacity and generation, and electricity transmission and trade. A detailed description of the EMM is provided in the EIA publication, *Electricity Market Module of the National Energy Modeling System 2010*, DOE/EIA-M068(2010).

Based on fuel prices and electricity demands provided by the other modules of the NEMS, the EMM determines the most economical way to supply electricity, within environmental and operational constraints. There are assumptions about the operations of the electricity sector and the costs of various options in each of the EMM submodules. This section describes the model parameters and assumptions used in EMM. It includes a discussion of legislation and regulations that are incorporated in EMM as well as information about the climate change action plan. The various electricity and technology cases are also described.

## EMM Regions

The supply regions used in EMM are based on the North American Electric Reliability Council regions and subregions shown in Figure 6 (region definitions as of 2004).

**Figure 6. Electricity Market Model Supply Regions**
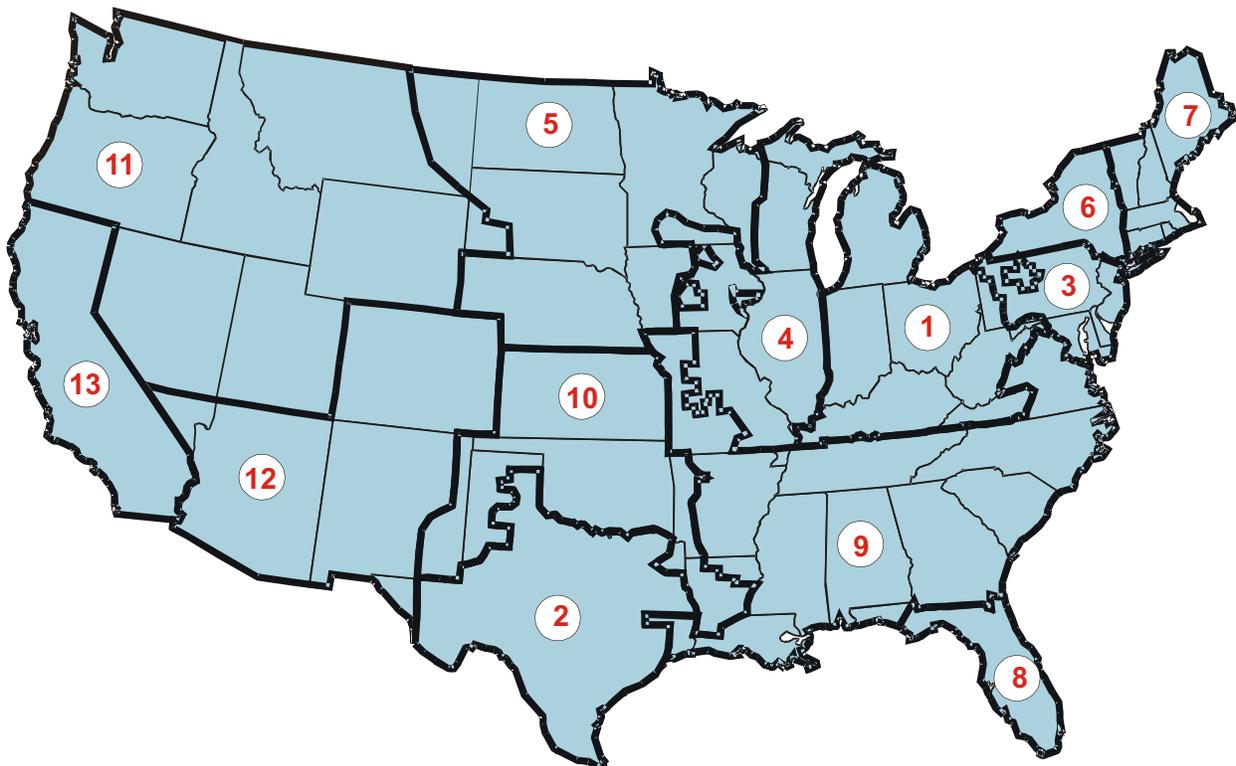


| | |
|---|---|
| 1 East Central Area Reliability Coordination Agreement (ECAR) | 8 Florida Reliability Coordinating Council (FL) |
| 2 Electric Reliability Council of Texas (ERCOT) | 9 Southeastern Electric Reliability Council (SERC) |
| 3 Mid-Atlantic Area Council (MAAC) | 10 Southwest Power Pool (SPP) |
| 4 Mid-America Interconnected Network (MAIN) | 11 Northwest Power Pool (NWP) |
| 5 Mid-Continent Area Power Pool (MAPP) | 12. Rocky Mountain Power Area, Arizona, New Mexico, and Southern Nevada (RA) |
| 6. New York (NY) | |
| 7. New England (NE) | 13 California (CA) |

# Model Parameters and Assumptions

## Generating Capacity Types

The capacity types represented in the EMM are shown in Table 8.1.

**Table 8.1. Generating Capacity Types Represented in the Electricity Market Module**

| Capacity Type |
| --- |
| Existing coal steam plants[1] |
| High Sulfur Pulverized Coal with Wet Flue Gas Desulfurization |
| Advanced Coal - Integrated Coal Gasification Combined Cycle |
| Advanced Coal with carbon sequestration |
| Oil/Gas Steam - Oil/Gas Steam Turbine |
| Combined Cycle - Conventional Gas/Oil Combined Cycle Combustion Turbine |
| Advanced Combined Cycle - Advanced Gas/Oil Combined Cycle Combustion Turbine |
| Advanced Combined Cycle with carbon sequestration |
| Combustion Turbine - Conventional Combustion Turbine |
| Advanced Combustion Turbine - Steam Injected Gas Turbine |
| Molten Carbonate Fuel Cell |
| Conventional Nuclear |
| Advanced Nuclear - Advanced Light Water Reactor |
| Generic Distributed Generation - Baseload |
| Generic Distributed Generation - Peak |
| Conventional Hydropower - Hydraulic Turbine |
| Pumped Storage - Hydraulic Turbine Reversible |
| Geothermal |
| Municipal Solid Waste |
| Biomass - Integrated Gasification Combined-Cycle |
| Solar Thermal - Central Receiver |
| Solar Photovoltaic - Single Axis Flat Plate |
| Wind |
| Wind Offshore |

[1]The EMM represents 32 different types of existing coal steam plants, based on the different possible configuration of $No_x$, particulate and $SO_2$ emission control devices, as well as future options for controlling mercury.

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting.

## New Generating Plant Characteristics

The cost and performance characteristics of new generating technologies are inputs to the electricity capacity planning submodule (Table 8.2). These characteristics are used in combination with fuel prices from the NEMS fuel supply modules and foresight on fuel prices, to compare options when new capacity is needed. Heat rates for fossil-fueled technologies are assumed to decline linearly through 2025.

The overnight costs shown in Table 8.2 are the cost estimates to build a plant in a typical region of the country. Differences in plant costs due to regional distinctions are calculated by applying regional multipliers that represent variations in the cost of labor. The base overnight cost is multiplied by a project contingency factor and a technological optimism factor (described later in this chapter), resulting in the total construction cost for the first-of-a-kind unit used for the capacity choice decision.

The base overnight costs were updated to capture some of the rapid increases due to rising commodity costs for *AEO2009*. Cost for coal and nuclear plants were updated for *AEO2010* to reflect continued modest increases. A cost adjustment factor, based on the producer price index for metals and metal products, allows the overnight costs to fall in the future if this index drops, or rise further if it increases.

## Table 8.2. Cost and Performance Characteristics of New Central Station Electricity Generating Technologies

| Technology | Online Year[1] | Size (mW) | Leadtime (Years) | Base Overnight Cost in 2009 ($2008/kW) | Contingency Factors | | Total Overnight Cost in 2009[4] (2008 $/kW) | Variable O&M[5] ($2008 mills/kWh) | Fixed O&M[5] ($2008/kW) | Heatrate[6] in 2009 (Btu/kWhr) | Heatrate nth-of-a-kind (Btu/kWr) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Project Contingency Factor[2] | Technological Optimism Factor[3] | | | | | |
| Scrubbed Coal New[7] | 2013 | 600 | 4 | 2,078 | 1.07 | 1.00 | 2,223 | 4.69 | 28.15 | 9,200 | 8,740 |
| Integrated Coal-Gasification Combined Cycle (IGCC)[7] | 2013 | 550 | 4 | 2,401 | 1.07 | 1.00 | 2,569 | 2.99 | 39.53 | 8,765 | 7,450 |
| IGCC withCarbon Sequestration | 2016 | 380 | 4 | 3,427 | 1.07 | 1.03 | 3,776 | 4.54 | 47.15 | 10,781 | 8,307 |
| Conv Gas/Oil Comb Cycle | 2012 | 250 | 3 | 937 | 1.05 | 1.00 | 984 | 2.11 | 12.76 | 7,196 | 6,800 |
| Adv Gas/Oil Comb Cycle (CC) | 2012 | 400 | 3 | 897 | 1.08 | 1.00 | 968 | 2.04 | 11.96 | 6,752 | 6,333 |
| ADVCC with Carbon Sequestion | 2016 | 400 | 3 | 1,720 | 1.08 | 1.04 | 1,932 | 3.01 | 20.35 | 8,613 | 7,493 |
| Conv Combustion Turbine[8] | 2011 | 160 | 2 | 653 | 1.05 | 1.00 | 685 | 3.65 | 12.38 | 10,788 | 10,450 |
| Adv Combustion Turbine | 2011 | 230 | 2 | 617 | 1.05 | 1.00 | 648 | 3.24 | 10.77 | 9,289 | 8,550 |
| Fuel Cells | 2012 | 10 | 3 | 4,744 | 1.05 | 1.10 | 5,478 | 49.00 | 5.78 | 7,930 | 6,960 |
| Advanced Nuclear | 2016 | 1350 | 6 | 3,308 | 1.10 | 1.05 | 3,820 | 0.51 | 92.04 | 10,488 | 10,488 |
| Distributed Generation -Base | 2012 | 2 | 3 | 1,334 | 1.05 | 1.00 | 1,400 | 7.28 | 16.39 | 9,050 | 8,900 |
| Distributed Generation -Peak | 2011 | 1 | 2 | 1,601 | 1.05 | 1.00 | 1,681 | 7.28 | 16.39 | 10,069 | 9,880 |
| Biomass | 2013 | 80 | 4 | 3,414 | 1.07 | 1.05 | 3,849 | 6.86 | 65.89 | 9,451 | 7,765 |
| Geothermal [7,9] | 2010 | 50 | 4 | 1,666 | 1.05 | 1.00 | 1,749 | 0.00 | 168.33 | 32,969 | 30,326 |
| MSW - Landfill Gas | 2010 | 30 | 3 | 2,430 | 1.07 | 1.00 | 2,599 | 0.01 | 116.80 | 13,648 | 13,648 |
| Conventional Hydropower[9] | 2013 | 500 | 4 | 2,084 | 1.10 | 1.00 | 2,291 | 2.49 | 13.93 | 9,884 | 9,884 |
| Wind | 2009 | 50 | 3 | 1,837 | 1.07 | 1.00 | 1,966 | 0.00 | 30.98 | 9,884 | 9,884 |
| Wind Offshore | 2013 | 100 | 4 | 3,492 | 1.10 | 1.02 | 3,937 | 0.00 | 86.92 | 9,884 | 9,884 |
| Solar Thermal[7] | 2012 | 100 | 3 | 4,798 | 1.07 | 1.00 | 5,132 | 0.00 | 58.05 | 9,884 | 9,884 |
| Photovoltaic[7] | 2011 | 5 | 2 | 5,879 | 1.05 | 1.00 | 6,171 | 0.00 | 11.94 | 9,884 | 9,884 |

[1]Online year represents the first year that a new unit could be completed, given an order date of 2009.  For wind, geothermal and landfill gas, the online year was moved earlier to acknowledge the significant market activity already occuring in anticipation of the expiration of the Production Tax Credit.

[2]A contingency allowance is defined by the American Association of Cost Engineers as the "specific provision for unforeseeable elements if costs within a defined project scope; particularly important where previous experience has shown that unforeseeable events which will increase costs are likely to occur."

[3]The technological optimism factor is applied to the first four units of a new, unproven design.  It reflects the demonstrated tendency to underestimate actual costs for a first-of-a-kind unit.

[4]Overnight capital cost including contingency factors, excluding regional multipliers and learning effects. Interest charges are also excluded. These represent costs of new projects initiated in 2009.

[5]O&M = Operations and maintenance.

[6]For hydro, wind, and solar technologies, the heatrate shown represents the average heatrate for conventional thermal generation as of 2008.  This is used for purposes of calculating primary energy consumption displaced for these resources, and does not imply an estimate of their actual energy conversion efficiency.

[7]Capital costs are shown before investment tax credits are applied.

[8]Combustion turbine units can be built by the model prior to 2011 if necessary to meet a given region's reserve margin.

[9]Because geothermal and hydro cost and performance characteristics are specific for each site, the table entries represent the cost of the least expensive plant that could be built in the Northwest Power Pool region, where most of the proposed sites are located.

Sources: The values shown in this table are developed by the Energy Information Administration, Office of Integrated Analysis and Forecasting, from analysis of reports and discussions with various sources from industry, government, and the Department of Energy Fuel Offices and National Laboratories.  They are not based on any specific technology model, but rather, are meant to represent the cost and performance of typical plants under normal operating conditions for each plant type.  Key sources reviewed are listed in the 'Notes and Sources' section at the end of the chapter.

## Technological Optimism and Learning

Overnight costs for each technology are calculated as a function of regional construction parameters, project contingency, and technological optimism and learning factors.

The technological optimism factor represents the demonstrated tendency to underestimate actual costs for a first-of-a-kind, unproven technology. As experience is gained (after building 4 units) the technological optimism factor is gradually reduced to 1.0.

The learning function in NEMS is determined at a component level. Each new technology is broken into its major components, and each component is identified as revolutionary, evolutionary or mature. Different learning rates are assumed for each component, based on the level of experience with the design component (Table 8.3). Where technologies use similar components, these components learn at the same rate as these units are built. For example, it is assumed that the underlying turbine generator for a combustion turbine, combined cycle and integrated coal-gasification combined cycle unit is basically the same. Therefore construction of any of these technologies would contribute to learning reductions for the turbine component.

The learning function has the nonlinear form:

$$OC(C) = a * C^{-b},$$

where C is the cumulative capacity for the technology component.

**Table 8.3. Learning Parameters for New Generating Technology Components**

| Technology Component | Period 1 Learning Rate | Period 2 Learning Rate | Period 3 Learning Rate | Period 1 Doublings | Period 2 Doublings | Minimum Total Learning by 2025 |
|---|---|---|---|---|---|---|
| Pulverized Coal | - | - | 1% | - | - | 5% |
| Combustion Turbine - conventional | - | - | 1% | - | - | 5% |
| Combustion Turbine - advanced | - | 10% | 1% | - | 5 | 10% |
| HRSG[1] | - | - | 1% | - | - | 5% |
| Gasifier | - | 10% | 1% | - | 5 | 10% |
| Carbon Capture/Sequestration | 20% | 10% | 1% | 3 | 5 | 20% |
| Balance of Plant - IGCC | - | - | 1% | - | - | 5% |
| Balance of Plant - Turbine | - | - | 1% | - | - | 5% |
| Balance of Plant - Combined Cycle | - | - | 1% | - | - | 5% |
| Fuel Cell | 20% | 10% | 1% | 3 | 5 | 20% |
| Advanced Nuclear | 5% | 3% | 1% | 3 | 5 | 10% |
| Fuel prep - Biomass IGCC | 20% | 10% | 1% | 3 | 5 | 20% |
| Distributed Generation - Base | - | 5% | 1% | - | 5 | 10% |
| Distributed Generation - Peak | - | 5% | 1% | - | 5 | 10% |
| Geothermal | - | 8% | 1% | - | 5 | 10% |
| Municipal Solid Waste | - | - | 1% | - | - | 5% |
| Hydropower | - | - | 1% | - | - | 5% |
| Wind | - | - | 1% | - | - | 1% |
| Wind Offshore | 20% | 10% | 1% | 3 | 5 | 20% |
| Solar Thermal | 20% | 10% | 1% | 3 | 5 | 20% |
| Solar PV | 15% | 8% | 1% | 3 | 5 | 20% |

[1]HRSG = Heat Recovery Steam Generator

Note: Please see the text for a description of the methodology for learning in the Electricity Market Module.

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting.

The progress ratio (*pr*) is defined by speed of learning (e.g., how much costs decline for every doubling of capacity). The reduction in capital cost for every doubling of cumulative capacity (f) is an exogenous parameter input for each component (Table 8.3). Consequently, the progress ratio and *f* are related by:

$$pr = 2^{-b} = (1 - f)$$

The parameter "b" is calculated by (b =-(ln(1-*f*)/ln(2)). The parameter "a" can be found from initial conditions. That is,

$$a = OC(C0)/C0^{-b}$$

where C0 is the cumulative initial capacity. Thus, once the rates of learning (f) and the cumulative capacity (C0) are known for each interval, the corresponding parameters (a and b) of the nonlinear function are known. Three learning steps were developed, to reflect different stages of learning as a new design is introduced to the market. New designs with a significant amount of untested technology will see high rates of learning initially, while more conventional designs will not have as much learning potential. All design components receive a minimal amount of learning, even if new capacity additions are not projected. This represents cost reductions due to future international development or increased research and development.

Once the learning rate by component is calculated, a weighted average learning factor is calculated for each technology. The weights are based on the share of the initial cost estimate that is attributable to each component (Table 8.4). For technologies that do not share components, this weighted average learning rate is calculated exogenously, and input as a single component. These technologies may still have a mix of revolutionary components and more mature components, but it is not necessary to include this detail in the

**Table 8.4. Component Cost Weights for New Technologies**

| Technology | Combustion Turbine-conventional | Combustion Turbine-advanced | HRSG | Gasifier | Carbon Capture/ Sequestration | Balance of Plant- IGCC | Balance of Plant- Turbine | Balance of Plant- Combined Cycle | Fuelprep Biomass IGCC |
|---|---|---|---|---|---|---|---|---|---|
| Integrated Coal_Gasification Comb Cycle (IGCC) | 0% | 15% | 20% | 41% | 0% | 24% | 0% | 0% | 0% |
| IGCC with carbon sequestration | 0% | 10% | 15% | 30% | 30% | 15% | 0% | 0% | 0% |
| Conv Gas/Oil Comb Cycle | 30% | 0% | 40% | 0% | 0% | 0% | 0% | 30% | 0% |
| Adv Gas/Oil Comb Cycle (CC) | 0% | 30% | 40% | 0% | 0% | 0% | 0% | 30% | 0% |
| Adv CC with carbon sequestration | 0% | 20% | 25% | 0% | 40% | 0% | 0% | 15% | 0% |
| Conv Comb Turbine | 50% | 0% | 0% | 0% | 0% | 0% | 50% | 0% | 0% |
| Adv Comb Turbine | 0% | 50% | 0% | 0% | 0% | 0% | 50% | 0% | 0% |
| Biomass | 0% | 12% | 16% | 25% | 0% | 20% | 0% | 0% | 27% |

Note: All unlisted technologies have a 100% weight with the corresponding component. Components are not broken out for all technologies unless there is overlap with other technologies.

HRSG = Heat Recovery Steam Generator.

Source: Market Based Advanced Coal Power Systems, May 1999, DOE/FE-0400

model unless capacity from multiple technologies would contribute to the component learning.

Table 8.5 shows the capacity credit toward component learning for the various technologies. It was assumed that for all combined-cycle technologies, the turbine unit contributed two-thirds of the capacity, and the steam unit one-third. Therefore, building one gigawatt of gas combined cycle would contribute 0.67 gigawatts toward turbine learning, and 0.33 gigawatts toward steam learning. All non-capacity components, such as the balance of plant category, contribute 100 percent toward the component learning.

**Table 8.5.  Component Capacity Weights for New Technologies**

| Technology | Combustion Turbine-conventional | Combustion Turbine-advanced | HRSG | Gasifier | Carbon Capture/ Sequestration | Balance of Plant- IGCC | Balance of Plant- Turbine | Balance of Plant- Combined Cycle | Fuelprep Biomass IGCC |
|---|---|---|---|---|---|---|---|---|---|
| Integrated Coal_Gasification Comb Cycle (IGCC) | 0% | 67% | 33% | 100% | 0% | 100% | 0% | 0% | 0% |
| IGCC with carbon sequestration | 0% | 67% | 33% | 100% | 100% | 100% | 0% | 0% | 0% |
| Conv Gas/Oil Comb Cycle | 67% | 0% | 33% | 0% | 0% | 0% | 0% | 100% | 0% |
| Adv Gas/Oil Comb Cycle (CC) | 0% | 67% | 33% | 0% | 0% | 0% | 0% | 100% | 0% |
| Adv CC with carbon sequestration | 0% | 67% | 33% | 0% | 100% | 0% | 0% | 100% | 0% |
| Conv Comb Turbine | 100% | 0% | 0% | 0% | 0% | 0% | 100% | 0% | 0% |
| Adv Comb Turbine | 0% | 100% | 0% | 0% | 0% | 0% | 100% | 0% | 0% |
| Biomass | 0% | 67% | 33% | 100% | 0% | 100% | 0% | 0% | 100% |

HRSG = Heat Recovery Steam Generator.

Source:  Energy Information Administration, Office of Integrated Analysis and Forecasting.

*International Learning*.  In *AEO2010*, capital costs for all new electricity generating technologies (fossil, nuclear, and renewable) decrease in response to foreign and domestic experience.  Foreign units of new technologies are assumed to contribute to reductions in capital costs for units that are installed in the United States to the extent that (1) the technology characteristics are similar to those used in U.S. markets, (2) the design and construction firms and key personnel compete in the U.S. market, (3) the owning and operating firm competes actively in the U.S. market, and (4) there exists relatively complete information about the status of the associated facility.  If the new foreign units do not satisfy one or more of these requirements, they are given a reduced weight or not included in the domestic learning effects calculation.

*AEO2010* includes 5,000 megawatts of advanced coal gasification combined-cycle capacity, 5,244 megawatts of advanced combined-cycle natural gas capacity,   11 megawatts of biomass capacity and 47 megawatts each of traditional wind and offshore wind capacity built outside the United States from 2000 through 2003. The learning function also includes 7,200 megawatts of advanced nuclear capacity, representing two completed units and four additional units under construction in Asia.

## Distributed Generation

Distributed generation is modeled in the end-use sectors as well as in the EMM, which is described in the appropriate chapters. This section describes the representation of distributed generation in the EMM only. Two generic distributed technologies are modeled. The first technology represents peaking capacity (capacity that has relatively high operating costs and is operated when demand levels are at their highest). The second generic technology for distributed generation represents base load capacity (capacity that is operated on a continuous basis under a variety of demand levels).  See Table 8.2 for costs and performance assumptions.  It is assumed that these plants reduce the costs of transmission upgrades that would otherwise be needed.

## Demand Storage

The electricity model includes the option to build a new demand storage technology to simulate load shifting, through programs such as smart meters. This is modeled as a new technology build, but with operating characteristics similar to pumped storage. The technology is able to decrease the load in peak slices, but must generate to replace that demand in other time slices. There is an input factor that identifies the amount of replacement generation needed, where a factor of less than 1.0 can be use to represent peak shaving rather than purely shifting the load to other time periods. This plant type is limited to operating only in the peak load slices, and for *AEO2010*, it is assumed that this capacity is limited to 3 percent of peak demand in each region.

## Representation of Electricity Demand

The annual electricity demand projections from the NEMS demand modules are converted into load duration curves for each of the EMM regions (based on North American Electric Reliability Council regions and subregions) using historical hourly load data. The load duration curve in the EMM is made up of 9 time slices. First, the load data is split into three seasons, (winter - December through March, summer - June through September, and fall/spring). Within each season the load data is sorted from high to low, and three load segments are created - a peak segment representing the top 1 percent of the load, and then two off-peak segments representing the next 49 percent and 50 percent, respectively. The seasons were defined to account for seasonal variation in supply availability.

Reserve margins—the percentage of capacity required in excess of peak demand needed for unforeseeable outages—are determined within the model through an iterative approach comparing the marginal cost of capacity and the cost of unserved energy. The target reserve margin is adjusted each model cycle until the two costs converge. The resulting reserve margins from the *AEO2010* reference case range from 8 to 16 percent.

## Fossil Fuel-Fired and Nuclear Steam Plant Retirement

Fossil-fired steam plant retirements and nuclear retirements are calculated endogenously within the model. Plants are assumed to retire when it is no longer economical to continue running them. Each year, the model determines whether the market price of electricity is sufficient to support the continued operation of existing plants. If the expected revenues from these plants are not sufficient to cover the annual going forward costs, the plant is assumed to retire if the overall cost of producing electricity can be lowered by building new replacement capacity. The going-forward costs include fuel, operations and maintenance costs and annual capital additions, which are plant specific based on historical data. The average capital additions for existing plants are $8 per kilowatt (kW) for oil and gas steam plants, $16 per kW for coal plants and $21 per kW for nuclear plants (in 2008 dollars). These costs are added to existing plants regardless of their age. Beyond 30 years of age an additional $6 per kW capital charge for fossil plants, and $31 per kW charge for nuclear plants is included in the retirement decision to reflect further investment to address impacts of aging. Age related cost increases are due to capital expenditures for major repairs or retrofits, decreases in plant performance, and/or increased maintenance costs to mitigate the effects of aging.

## Biomass Co-firing

Coal-fired power plants are allowed to co-fire with biomass fuel if it is economical. Co-firing requires a capital investment for boiler modifications and fuel handling. This expenditure ranges from about $121 to $279 per kilowatt of biomass capacity, depending on the type and size of the boiler. A coal-fired unit modified to allow co-firing can generate up to 15 percent of the total output using biomass fuel, assuming sufficient residue supplies are available. Larger units are required to pay additional transportation costs as the level of co-firing increases, due to the concentrated use of the regional supply.

## Nuclear Uprates

*The AEO2010* nuclear power projection assumes capacity increases at existing units. Nuclear plant operators can increase the rated capacity at plants through power uprates, which are license amendments that must be approved by the U.S. Nuclear Regulatory Commission (NRC). Uprates can vary from small (less than 2 percent) increases in capacity, which require very little capital investment or plant modifications, to extended uprates of 15-20 percent, requiring significant modifications. Historically, most uprates were small, and the AEO projections accounted for them only after they were implemented and reported, but recent surveys by the NRC and EIA have indicated that more extended power uprates are expected in the near future. *AEO2010* assumes that all of those uprates approved, pending or expected by the NRC will be implemented, for a capacity increase of 4.0 gigawatts between 2009 and 2035. Table 8.6 provides a summary of projected uprate capacity additions by region. In cases where the NRC did not specifically identify the unit expected to uprate, EIA assumed the units with the lowest operating costs would be the next likely candidates for power increases.

**Table 8.6.  Nuclear Uprates by EMM Region**
(gigawatts)

| Region | |
|---|---|
| East Central Area Reliability Coordination Agreement | 0.3 |
| Electric Reliability Council of Texas | 0.3 |
| Mid-Atlantic Area Council | 1.0 |
| Mid-America Interconnected Network | 0.4 |
| Mid-Continent Area Power Pool | 0.1 |
| New York | 0.2 |
| New England | 0.1 |
| Florida Reliability Coordinating Council | 0.0 |
| Southeastern Electric Reliability Council | 1.6 |
| Southwest Power Pool | 0.1 |
| Northwest Power Pool | 0.0 |
| Rocky Mountain Power Area, Arizona, New Mexico, and Southern Nevada | 0.0 |
| California | 0.0 |
| Total | 4.0 |

Source:  Energy Information Administration, Office of Integrated Analysis and Forecasting, based on Nuclear Regulatory Commission survey, http://www.nrc.gov/reactors/operating/licensing/power-uprates.html

## Interregional Electricity Trade

Both firm and economy electricity transactions among utilities in different regions are represented within the EMM.  In general, firm power transactions involve the trading of capacity and energy to help another region satisfy its reserve margin requirement, while economy transactions involve energy transactions motivated by the marginal generation costs of different regions.  The flow of power from region to region is constrained by the existing and planned capacity limits as reported in the National Electric Reliability Council and Western Electric Coordinating Council Summer and Winter Assessment of Reliability of Bulk Electricity Supply in North America.  Known firm power contracts are obtained from NERC's *Electricity Supply and Demand Database 2007*. They are locked in for the term of the contract. Contracts that are scheduled to expire by 2016 are assumed not to be renewed.  Because there is no information available about expiration dates for contracts that go beyond 2016, they are assumed to be phased out by 2025.  In addition, in certain regions where data show an established commitment to build plants to serve another region, new plants are permitted to be built to serve the other region's needs.  This option is available to compete with other resource options.

Economy transactions are determined in the dispatching submodule by comparing the marginal generating costs of adjacent regions in each time slice.  If one region has less expensive generating resources available in a given time period (adjusting for transmission losses and transmission capacity limits) than another region, the regions are allowed to exchange power.

## International Electricity Trade

Two components of international firm power trade are represented in the EMM—existing and planned transactions, and unplanned transactions. Existing and planned transactions are obtained from the North American Electric Reliability Council's *Electricity Supply and Demand Database 2007*. Unplanned firm power trade is represented by competing Canadian supply with U.S. domestic supply options. Canadian supply is represented via supply curves using cost data from the Department of Energy report *Northern Lights: The Economic and Practical Potential of Imported Power from Canada*, (DOE/PE-0079).

International economy trade is determined endogenously based on surplus energy expected to be available from Canada by region in each time slice. Canadian surplus energy is determined using Canadian electricity supply and demand projections from the MAPLE-C model developed for Natural Resources Canada.

## Electricity Pricing

The reference case assumes a transition to full competitive pricing in New York, Mid-Atlantic Area Council, and Texas, and a 95 percent transition to competitive pricing in New England (Vermont being the only fully-regulated State in that region). California returned to almost fully regulated pricing in 2002, after beginning a transition to competition in 1998. In addition electricity prices in the East Central Area Reliability Council, the Mid-American Interconnected Network, the Southeastern Electric Reliability Council, the Southwest Power Pool, the Northwest Power Pool, and the Rocky Mountain Power Area/Arizona are a mix of both competitive and regulated prices. Since some States in each of these regions have not taken action to deregulate their pricing of electricity, prices in those States are assumed to continue to be based on traditional cost-of-service pricing. The price for mixed regions is a load-weighted average of the competitive price and the regulated price, with the weight based on the percent of electricity load in the region that has taken action to deregulate. The reference case assumes that State-mandated price freezes or reductions during a specified transition period will occur based on the terms of the legislation. In general, the transition period is assumed to occur over a ten-year period from the effective date of restructuring, with a gradual shift to marginal cost pricing. In regions where none of the states in the region have introduced competition—Florida Reliability Coordinating Council and Mid-Continent Area Power Pool—electricity prices are assumed to remain regulated and the cost-of-service calculation is used to determine electricity prices.

The price of electricity to the consumer is comprised of the price of generation, transmission, and distribution including applicable taxes. Transmission and distribution are considered to remain regulated in the *AEO*; that is, the price of transmission and distribution is based on the average cost. In competitive regions, an algorithm in place allows customers to compete for better rates among rate classes as long as the overall average cost is met. The price of electricity in the regulated regions consists of the average cost of generation, transmission, and distribution for each customer class. In the competitive regions, the generation component of price is based on marginal cost, which is defined as the cost of the last (or most expensive) unit dispatched. The marginal cost includes fuel, operation and maintenance, taxes, and a reliability price adjustment, which represents the value of capacity in periods of high demand. The price of electricity in the regions with a competitive generation market consists of the marginal cost of generation summed with the average costs of transmission and distribution.

In recent years, the move towards competition in the electricity business has led utilities to make efforts to reduce costs to improve their market position. These cost reduction efforts are reflected in utility operating data reported to the Federal Energy Regulatory Commission (FERC) and these trends have been incorporated in the *AEO2010*. Both General and Administrative (G&A) expenses and Operations and Maintenance (O&M) expenses have shown declines in recent years. The O&M declines show variation based on the plant type. A regression analysis of recent data was done to determine the trend, and the resulting function was used to project declines throughout the projection. The analysis of G&A costs used data from 1992 through 2001, which had a 15 percent overall decline in G&A costs, and a 1.8 percent average annual decline rate. The *AEO2010* projection assumes a further decline of 18 percent by 2025 based on the results of the regression analysis. The O&M cost data was available from 1990 through 2001, and showed average annual declines of 2.1 percent for all steam units, 1.8 percent for combined cycle and 1.5 percent for nuclear. The *AEO2010* assumes further declines in O&M expenses for these plant types, for a total decline through 2025 of 17 percent for combined cycle, 15 percent for steam and 8 percent for nuclear.

There have been ongoing changes to pricing structures for ratepayers in competitive States since the inception of retail competition. The AEO has incorporated these changes as they have been incorporated into utility tariffs. These have included transition period rate reductions and freezes instituted by various States, and surcharges in California relating to the 2000-2001 energy crisis there. Since price freezes for most customers have ended or will end in the next year or two, a large survey of utility tariffs found that many costs related to the transition to competition were now explicitly added to the distribution portion, and sometimes the transmission portion of the customer bill regardless of whether or not the customer bought generation service from a competitive or regulated supplier. There are some unexpected costs relating to unforeseen events. For instance, as a result of volatile fuel markets, State regulators have had a hard time enticing retail suppliers to offer competitive supply to residential and smaller commercial and industrial customers. They have often resorted to procuring the energy themselves through auction or competitive bids or have allowed distribution utilities to procure the energy on the open market for their customers for a fee. For *AEO2010*, typical charges that all customers must pay on the distribution portion of their bill (depending on where they reside) include: transition charges (including persistent stranded costs), public benefits charges (usually for efficiency and renewable energy programs), administrative costs of energy procurement, and nuclear decommissioning costs. Costs added to the transmission portion of the bill include the Federally Mandated Congestion Charges (FMCC), a bill pass-through associated with the Federal Energy Regulatory Commission passage of Standard Market Design (SMD) to enhance reliability of the transmission grid and control congestion.

Transmission costs for the AEO are traditionally projected based on regressions of historical spending per non-coincident peak time electricity use to ensure that the model builds enough transmission infrastructure to accommodate growth in peak electricity demand. However, since spending decreased throughout the 1990s we have had to add in extra spending on transmission. Our additions were based on several large studies, such as the Department of Energy's National Transmission Grid Study, which set out to document how much spending would be needed to keep the national grid operating efficiently. Transmission spending has in fact been increasing very recently. We will be monitoring transmission spending closely over the next several years and updates will be made as new information becomes available.

## Fuel Price Expectations

Capacity planning decisions in the EMM are based on a life cycle cost analysis over a 30-year period. This requires foresight assumptions for fuel prices. Expected prices for coal, natural gas and oil are derived using rational expectations, or 'perfect foresight'. In this approach, expectations for future years are defined by the realized solution values for these years in a prior run. The expectations for the world oil price and natural gas wellhead price are set using the resulting prices from a prior run. The markups to the delivered fuel prices are calculated based on the markups from the previous year within a NEMS run. Coal prices are determined using the same coal supply curves developed in the Coal Market Module. The supply curves produce prices at different levels of coal production, as a function of labor productivity, and costs and utilization of mines. Expectations for each supply curve are developed in the EMM based on the actual demand changes from the prior run throughout the projection horizon, resulting in updated mining utilization and different supply curves.

The perfect foresight approach generates an internally consistent scenario for which the formation of expectations is consistent with the projections realized in the model. The NEMS model involves iterative cycling of runs until the expected values and realized values for variables converge between cycles.

## Nuclear Fuel Prices

Nuclear fuel prices are calculated through an offline analysis which determines the delivered price to generators in mills per kilowatthour. To produce reactor grade uranium, the uranium (U308) must first be mined, and then sent through a conversion process to prepare for enrichment. The enrichment process takes the fuel to a given purity of U-235, typically 3-5 percent for commercial reactors in the United States. Finally, the fabrication process prepares the enriched uranium for use in a specific type of reactor core. The price of each of the processes is determined, and summed to get the final price of the delivered fuel. The one mill per kilowatthour charge that is assessed on nuclear generation to go to the Department's Nuclear Waste Fund is also included in the final nuclear price. The analysis uses forecasts from Energy Resources International for the underlying uranium prices.

# Legislation and Regulations

## *Clean Air Act Amendments of 1990 (CAAA90) and Clean Air Interstate Rule (CAIR)*

The Clean Air Interstate Rule is a cap-and-trade program promulgated by the EPA in 2005 to reduce SO2 and NOx emissions in order to help States meet their National Ambient Air Quality Standards (NAAQS) for ozone and particulate matter, and to further emissions reductions already achieved through earlier programs. On July 11, 2008 the U.S. District Court of Appeals overturned CAIR. However, on December 23, 2008, the Court of Appeals issued a new ruling that allowed CAIR to remain in effect while EPA determines the appropriate modifications to address the original objections. Therefore, CAIR is modeled explicitly in the *AEO2010*.

As specified in the CAAA90, EPA has developed a two-phase nitrogen oxide ($NO_x$) program, with the first set of standards for existing coal plants applied in 1996 while the second set was implemented in 2000.   Dry bottom wall-fired, and tangential fired boilers, the most common boiler types, referred to as Group 1 Boilers, were required to make significant reductions beginning in 1996 and further reductions in 2000.  Relative to their uncontrolled emission rates, which range roughly between 0.6 and 1.0 pounds per  million Btu, they are required to make reductions between 25 and 50 percent to meet the Phase I limits and further reductions to meet their Phase II limits.   The EPA did not impose limits on existing oil and gas plants, but some states have additional $NO_x$ regulations.  All new fossil units are required to meet standards.  In pounds per million Btu, these limits are 0.11 for conventional coal, 0.02 for advanced coal, 0.02 for combined cycle, and 0.08 for combustion turbines.  These $NO_x$ limits are incorporated in EMM.

In addition, the EPA has issued rules to limit the emissions of NOx, specifically calling for capping emissions during the summer season in 22 Eastern and Midwestern states. After an initial challenge, these rules have been upheld, and emissions limits have been finalized for 19 states and the District of Columbia (Table 8.7). Within EMM, electric generators in these 19 states must comply with the limit either by reducing their own emissions or purchasing allowances from others who have more than they need.

**Table 8.7.  Summer Season $NO_x$ Emissions Budgets for 2004 and Beyond**
     (Thousand tons per season)

| State | Emissions Cap |
|---|---|
| Alabama | 29.02 |
| Connecticut | 2.65 |
| Delaware | 5.25 |
| District of Columbia | 0.21 |
| Illinois | 32.37 |
| Indiana | 47.73 |
| Kentucky | 36.50 |
| Maryland | 14.66 |
| Massachusetts | 15.15 |
| Michigan | 32.23 |
| New Jersey | 10.25 |
| New York | 31.04 |
| North Carolina | 31.82 |
| Ohio | 48.99 |
| Pennsylvania | 47.47 |
| Rhode Island | 1.00 |
| South Carolina | 16.77 |
| Tennessee | 25.81 |
| Virginia | 17.19 |
| West Virginia | 26.86 |

Source:  U.S. Environmental Protection Agency, Federal Register, Vol. 65, number 42 (March 2, 2002) pages 11222-11231.

The costs of adding flue gas desulfurization equipment (FGD) to remove sulfur dioxide ($SO_2$) and selective catalytic reduction (SCR) equipment to remove nitrogen oxides ($NO_x$) are given below for 300, 500, and 700-megawatt coal plants. FGD units are assumed to remove 95 percent of the $SO_2$, while SCR units are assumed to remove 90 percent of the $NO_x$. The costs per megawatt of capacity decline with plant size and are shown in Table 8.8.

**Table 8.8. Coal Plant Retrofit Costs**
  (2008 Dollars)

| Coal Plant Size (MW) | FGD Capital Costs ($/KW) | SCR Capital Costs ($/KW) |
|---|---|---|
| 300 | 364 | 150 |
| 500 | 278 | 131 |
| 700 | 229 | 118 |

Note: The model was run for each individual plant assuming a 1.3 retrofit factor for FGDs and 1.6 factor for SCRs.

Source: CUECOST3.xls model (as updated 2/9/2000) developed for the Environmental Protection Agency by Raytheon Engineers and Constructors, Inc. EPA Contract number 68-D7-0001.

## Mercury Regulation

The Clean Air Mercury Rule set up a national cap-and-trade program with emission limits set to begin in 2010. This rule was vacated in February, 2008 and therefore is not included in the *AEO2010*. However, many States had already begun adopting more stringent regulations calling for the application of the best available control technology on all electricity generating units of a certain capacity. After the court's decision, more States imposed their own regulations. Because State laws differ, a rough estimate was created that generalized the various State programs into a format that could be used in NEMS. The EMM allows plants to alter their configuration by adding equipment, such as an SCR to remove $NO_x$ or an $SO_2$ scrubber. They can also add activated carbon injection systems specifically designed to remove mercury. Activated carbon can be injected in front of existing particulate control devices or a supplemental fabric filter can be added with activated carbon injection capability.

The equipment to inject activated carbon in front of an existing particulate control device is assumed to cost approximately $6 (2008 dollars) per kilowatt of capacity, while the cost of a supplemental fabric filter with activated carbon injection (often referred as a COPAC unit) is approximately $77 per kilowatt of capacity.[1] The amount of activated carbon required to meet a given percentage removal target is given by the following equations.[2]

For a unit with a CSE, using subbituminous coal, and simple activated carbon injection:

- Hg Removal (%) = 65 – (65.286 / (ACI + 1.026))

For a unit with a CSE, using bituminous coal, and simple activated carbon injection:

- Hg Removal (%) = 100 – (469.379 / (ACI + 7.169))

For a unit with a CSE, and a supplemental fabric filter with activated carbon injection:

- Hg Removal (%) = 100 – (28.049 / (ACI + 0.428))

For a unit with a HSE/Other, and a supplemental fabric filter with activated carbon injection:

- Hg Removal (%) = 100 – (43.068 / (ACI + 0.421))

ACI = activated carbon injected in pounds per million actual cubic feet.

## Power Plant Mercury Emissions Assumptions

The Electricity Market Module (EMM) of the National Energy Modeling System (NEMS) represents 35 coal plant configurations and assigns a mercury emissions modification factor (EMF) to each configuration Each configuration represents different combinations of boiler types, particulate control devices, sulfur dioxide ($SO_2$) control devices, nitrogen oxide ($NO_x$) control devices, and mercury control devices. An EMF

represents the amount of mercury that was in the fuel that remains after passing through all the plant's systems. For example, an EMF of 0.60 means that 40 percent of the mercury that was in the fuel is removed by various parts of the plant. Table 8.9 provides the assumed EMFs for existing coal plant configurations without mercury specific controls.

**Table 8.9. Mercury Emission Modification Factors**

| Configuration | | | EIA EMFs | | | EPA EMFs | | |
|---|---|---|---|---|---|---|---|---|
| $SO_2$ Control | Particulate Control | $NO_x$ Control | Bit Coal | Sub Coal | Lignite Coal | Bit Coal | Sub Coal | Lignite Coal |
| None | BH | — | 0.11 | 0.27 | 0.27 | 0.11 | 0.26 | 1.00 |
| Wet | BH | None | 0.05 | 0.27 | 0.27 | 0.03 | 0.27 | 1.00 |
| Wet | BH | SCR | 0.10 | 0.27 | 0.27 | 0.10 | 0.15 | 0.56 |
| Dry | BH | — | 0.05 | 0.75 | 0.75 | 0.05 | 0.75 | 1.00 |
| None | CSE | — | 0.64 | 0.97 | 0.97 | 0.64 | 0.97 | 1.00 |
| Wet | CSE | None | 0.34 | 0.73 | 0.73 | 0.34 | 0.84 | 0.56 |
| Wet | CSE | SCR | 0.10 | 0.73 | 0.73 | 0.10 | 0.34 | 0.56 |
| Dry | CSE | — | 0.64 | 0.65 | 0.65 | 0.64 | 0.65 | 1.00 |
| None | HSE/Oth | — | 0.90 | 0.94 | 0.94 | 0.90 | 0.94 | 1.00 |
| Wet | HSE/Oth | None | 0.58 | 0.80 | 0.80 | 0.58 | 0.80 | 1.00 |
| Wet | HSE/Oth | SCR | 0.42 | 0.76 | 0.76 | 0.10 | 0.75 | 1.00 |
| Dry | HSE/Oth | — | 0.60 | 0.85 | 0.85 | 0.60 | 0.85 | 1.00 |

Notes: $SO_2$ Controls - Wet = Wet Scrubber and Dry = Dry Scrubber, Particulate Controls, BH - fabric filter/baghouse. CSE = cold side electrostatic precipitator, HSE = hot side electrostatic precipitator, $NO_x$ Controls, SCR = selective catalytic reduction, — = not applicable, Bit = bituminous coal, Sub = subbituminous coal. The $NO_x$ control system is not assumed to enhance mercury removal unless a wet scrubber is present, so it is left blank in such configurations.

Sources: EPA, EMFs. http://www.epa.gov/clearskies/technical.html  EIA EMFs not from EPA: Lignite EMFs, Mercury Control Technologies for Coal-Fired Power Plants, presented by the Office of Fossil Energy on July 8, 2003. Bituminous coal mercury removal for a Wet/HSE/Oth/SCR configured plant, Table EMF1, Analysis of Mercury Control Cost and Performance, Office of Fossil Energy & National Energy Technology Laboratory, U.S. Department of Energy, January 2003, Washington, DC.

## *Planned SO$_2$ Scrubber and NO$_x$ Control Equipment Additions*

In recent years, in response to state emission reduction programs and compliance agreements with the Environmental Protection Agency, some companies have announced plans to add scrubbers to their plants to reduce sulfur dioxide and particulate emissions. Where firm commitments appear to have been made these plans have been represented in NEMS. Based on EIA analysis of announced plans, 40.5 gigawatts of capacity are assumed to add these controls (Table 8.10). The greatest number of retrofits is expected to occur in the Midwestern States, where there is a large base of coal capacity impacted by the $SO_2$ limit in CAIR, as well as in the Southeastern Electric Reliability Council because of the Clean Smokestacks bill passed by the North Carolina General Assembly.

**Table 8.10. Planned SO$_2$ Scrubber Additions Represented by Region**

| Region | Capacity (Gigawatts) |
|---|---|
| East Central Area Reliability Coordination Agreement | 13.6 |
| Electric Reliability Council of Texas | 0.0 |
| Mid-Atlantic Area Council | 7.6 |
| Mid-America Interconnected Network | 3.7 |
| Mid-Continent Area Power Pool | 0.7 |
| New York | 0.0 |
| New England | 0.0 |
| Florida Reliability Coordinating Council | 1.8 |
| Southeastern Electric Reliability Council | 12.6 |
| Southwest Power Pool | 0.0 |
| Northwest Power Pool | 0.0 |
| Rocky Mountain Power Area, Arizona, New Mexico, and Southern Nevada | 0.6 |
| California | 0.0 |
| Total | 40.5 |

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting, based on public announcements and reports to Form EIA-767, "Annual Steam-Electric Plant Operation and Design Data".

Companies are also announcing plans to retrofit units with controls to reduce NOx emissions to comply with emission limits in certain states. In the reference case planned post-combustion control equipment amounts to 20.5 gigawatts of selective catalytic reduction (SCR).

## Carbon Capture and Sequestration Retrofits

Although a federal greenhouse gas program is not in place in the AEO2010 reference case, the EMM was updated to include the option of retrofitting existing coal plants for carbon capture and sequestration (CCS). This option is important when considering alternate scenarios that do constrain carbon emissions. The modeling structure for CCS retrofits within the EMM was developed by the National Energy Technology Laboratory[3] and uses a generic model of retrofit costs as a function of basic plant characteristics (such as heatrate). The CCS retrofits are assumed to remove 90% of the carbon input. The addition of the CCS equipment results in a capacity derate of around 30% and reduced efficiency of 43% at the existing coal plant. The costs depend on the size and efficiency of the plant, with the capital costs ranging from $900 to $1300 per kilowatt. It was assumed that only plants greater than 500 megawatts and with heatrates below 12,000 BTU per kilowatthour would be considered for CCS retrofits.

## Energy Policy Acts of 1992 (EPACT92) and 2005 (EPACT05)

The provisions of the EPACT92 include revised licensing procedures for nuclear plants and the creation of exempt wholesale generators (EWGs). The EPACT05 provides a 20-percent investment tax credit for Integrated Coal-Gasification Combined Cycle capacity and a 15-percent investment tax credit for other advanced coal technologies. These credits are limited to 3 gigawatts in both cases. It also contains a production tax credit (PTC) of 1.8 cents (nominal) per kilowatthour for new nuclear capacity beginning operation by 2020. This PTC is specified for the first 8 years of operation, is limited to $125 million (per gigawatt) annually, and is limited to 6 gigawatts of new capacity. However, this credit may be shared to additional units if more than 6 gigawatts are under construction by January 1, 2014. In the *AEO2009* Reference case it is projected that 3 gigawatts of new nuclear capacity will be built by 2020, each receiving the full credit worth 1.8 cents per kilowatthour. EPACT05 extended the PTC for qualifying renewable facilities by 2 years, or December 31, 2007. It also repealed the Public Utility Holding Company Act (PUHCA).

## Energy Improvement and Extension Act 2008 (EIEA2008)

EIEA2008 extended the PTC to qualifying wind facilities entering service by December 31, 2009. Other facilities eligible to receive the PTC, such as geothermal, hydroelectric, and biomass, were extended through December 31, 2010.

## American Recovery and Reinvestment Act (ARRA)

### Updated Tax Credits for Renewables

ARRA further extended the expiration date for the PTC to January 1, 2013, for wind and January 1, 2014, for all other eligible renewable resources. In addition, ARRA allows companies to choose an investment tax credit (ITC) of 30 percent in lieu of the PTC and allows for a grant in lieu of this credit to be funded by the U.S. Treasury. Under most circumstances for most technologies, the full PTC would appear to be more valuable than the 30 percent ITC; however, the difference is often small. Qualitative factors, such as the lack of partners with sufficient tax liability, may cause companies to favor the ITC grant option in the current economic environment. The *AEO2010* generally assumes that renewable electricity projects will claim the more favorable tax credit or grant option available to them.

### Loan Guarantees for Renewables

ARRA provided $6 billion to pay the cost of guarantees for loans authorized by the Energy Policy Act of 2005. This provision has been represented by lowering the cost of financing by 2 percentage points for all eligible renewable projects brought on by 2015. The 2015 date, 4 years after the September 30, 2011, start of construction cutoff date, was chosen to allow for the construction period associated with most renewable generating technologies.

### Support for CCS

ARRA provided $3.4 billion for additional research and development on fossil energy technologies. A portion of this funding is expected to be used to fund projects under the Clean Coal Power Initiative program, focusing on projects that capture and sequester greenhouse gases. To reflect the impact of this provision, the AEO2010 reference case assumes that an additional 1 gigawatt of coal capacity with CCS will be stimulated by 2017.

### Smart Grid Expenditures

ARRA provides $4.5 billion for smart grid demonstration projects. While somewhat difficult to define, smart grid technologies generally include a wide array of measurement, communications, and control equipment employed throughout the transmission and distribution system that will enable real-time monitoring of the production, flow, and use of power from generator to consumer. Among other things once deployed, these smart grid technologies are expected to enable more efficient use of the transmission and distribution grid, lower line losses, facilitate greater use of renewables, and provide information to utilities and their customers that will lead to greater investment in energy efficiency and reduced peak load demands. The funds provided will not fund a widespread implementation of smart grid technologies, but could stimulate more rapid investment than would otherwise occur.

Several changes were made throughout the NEMS to represent the impacts of the smart grid funding provided in ARRA. In the electricity module, it was assumed that line losses would fall slightly, peak loads would fall as customers shifted their usage patterns, and customers would be more responsive to pricing signals. Historically, line losses, expressed as the percentage of electricity lost, have been falling for many years as utilities make investments to replace aging or failing equipment. This trend was incorporated in the previous AEO reference cases, and after passage of ARRA, the time period for improvements was extended, allowing for greater declines in losses. In AEO2010 it is assumed that line losses fall from roughly 6.9 percent in 2008 to 5.3 percent by 2025.

Smart grid technologies also have the potential to reduce peak demand through the increased deployment of demand response programs. In the AEO2010, it is assumed that the Federal expenditures on smart grid technologies will stimulate efforts that reduce peak demand in 2035 by 3 percent from what they otherwise would be. Load is shifted to offpeak hours, so net energy consumed remains largely constant.

## FERC Orders 888 and 889

FERC has issued two related rules (Orders 888 and 889) designed to bring low cost power to consumers through competition, ensure continued reliability in the industry, and provide for open and equitable

Specifically, Order 888 requires open access to the transmission grid currently owned and operated by utilities. The transmission owners must file nondiscriminatory tariffs that offer other suppliers the same services that the owners provide for themselves. Order 888 also allows these utilities to recover stranded costs (investments in generating assets that are unrecoverable due to consumers selecting another supplier). Order 889 requires utilities to implement standards of conduct and an Open Access Same-Time Information System (OASIS) through which utilities and non-utilities can receive information regarding the transmission system. Consequently, utilities are expected to functionally or physically unbundle their marketing functions from their transmission functions.

These orders are represented in EMM by assuming that all generators in a given region are able to satisfy load requirements anywhere within the region. Similarly, it is assumed that transactions between regions will occur if the cost differentials between them make it economic to do so.

# Electricity Alternative Cases

## Fossil Cost Cases

The *high fossil cost case* assumes that the base costs of all fossil generating technologies  will remain at current costs during the projection period, with no reductions due to learning. The annual commodity cost adjustment factor is still appplied as in the reference case. (Table 8.11) Capital costs of non-fossil generating technologies are the same as those assumed in the reference case.

In the *low fossil cost case*, capital costs, and operating costs for the fossil technologies are assumed to start 10% lower than the reference case and to be 25 percent lower than Reference case levels in 2035. Since learning occurs in the Reference case, costs and performance in the low case are reduced from initial levels by more than 25 percent, across the fossil technologies. Capital costs are reduced by 37 percent to 49 percent between 2010 and 2035.

The *low and high fossil cost cases* are fully-integrated runs, allowing feedback from the end-use demand and fuel supply modules.

## Nuclear Cost Cases

For nuclear power plants, two nuclear cost cases analyze the sensitivity of the projections to lower and higher costs for new plants. The cost assumptions for the *low nuclear cost case* reflect a 10 percent decline in initial costs and a 25 percent reduction in the capital and operating cost for the advanced nuclear technology in 2035, relative to the reference case. Since the reference case assumes some learning occurs regardless of new orders and construction, the reference case already projects a 35 percent reduction in capital costs between 2010 and 2035. The *low nuclear cost case* assumes a 45 percent reduction between 2010 and 2035. The *high nuclear cost case* assumes that base capital costs for the advanced nuclear technology do not decline from 2010 levels (Table 8.12). The capital costs are still tied to key commodity price indices, but no cost improvement from "learning-by-doing" effects is assumed.

## Alternate Nuclear Retirement Case

In the *nuclear 60-year life case*, all existing nuclear plants are assumed to retire after 60 years of operation. In the reference case, existing plants are assumed to run as long as they continue to be economic, therefore implicitly assuming that a second 20-year license renewal will be obtained for those plants reaching 60 years before 2035. This alternate case was run to analyze the impact of additional nuclear retirements, which could occur if the oldest plants do not receive a second license extension. In this case 31 gigawatts of nuclear capacity are assumed to retire by 2035.

**Table 8.11. Cost and Performance Characteristics for Fossil-Fueled Generating Technologies:  Three Cases**

| | Total Overnight Cost in 2009 (Reference) (2008 $/kW) | Total Overnight Cost[1] | | |
| --- | --- | --- | --- | --- |
| | | Reference (2008 $/kW) | High Fossil Cost (2008 $/kW) | Low  FossilCost (2008 $/kW) |
| Pulverized Coal | 2223 | | | |
| 2015 | | 2418 | 2457 | 2104 |
| 2020 | | 2283 | 2356 | 1918 |
| 2025 | | 2076 | 2177 | 1981 |
| 2030 | | 1872 | 1996 | 1459 |
| 2035 | | 1681 | 1823 | 1261 |
| Advanced Coal | 2569 | | | |
| 2015 | | 2769 | 2338 | 2408 |
| 2020 | | 2590 | 2722 | 2176 |
| 2025 | | 2329 | 2516 | 1887 |
| 2030 | | 2065 | 2306 | 1610 |
| 2035 | | 1829 | 2107 | 1372 |
| Advanced Coal withSequestration | 3776 | | | |
| 2015 | | 4022 | 4172 | 3499 |
| 2020 | | 3568 | 4002 | 2997 |
| 2025 | | 3163 | 3697 | 2562 |
| 2030 | | 2765 | 3391 | 2156 |
| 2035 | | 2410 | 3098 | 1807 |
| Conventional Combined Cycle | 984 | | | |
| 2015 | | 1070 | 1086 | 931 |
| 2020 | | 1010 | 1042 | 849 |
| 2025 | | 918 | 963 | 743 |
| 2030 | | 823 | 884 | 647 |
| 2035 | | 744 | 806 | 559 |
| Advanced Gas | 968 | | | |
| 2015 | | 1048 | 1070 | 913 |
| 2020 | | 985 | 1070 | 828 |
| 2025 | | 889 | 949 | 719 |
| 2030 | | 786 | 869 | 613 |
| 2035 | | 698 | 795 | 524 |
| Advanced Gas with Sequestration | 1932 | | | |
| 2015 | | 2054 | 2134 | 1787 |
| 2020 | | 1795 | 2048 | 1507 |
| 2025 | | 1585 | 1892 | 1285 |
| 2030 | | 1375 | 1735 | 1072 |
| 2035 | | 1191 | 1585 | 893 |
| Conventional CombustionTurbine | 685 | | | |
| 2015 | | 745 | 757 | 648 |
| 2020 | | 703 | 726 | 590 |
| 2025 | | 640 | 671 | 518 |
| 2030 | | 577 | 615 | 450 |
| 2035 | | 518 | 562 | 388 |
| Advanced CombustionTurbine | 648 | | | |
| 2015 | | 699 | 717 | 608 |
| 2020 | | 655 | 687 | 550 |
| 2025 | | 588 | 634 | 476 |
| 2030 | | 513 | 582 | 401 |
| 2035 | | 552 | 532 | 339 |

[1]Total overnight cost (including project contingency, technological optimism and learning factors, but excluding regional multipliers), for projects online in the given year.
Source: AEO2010 National Energy Modeling System runs: AEO2010R.D111809A, HCFOSS10.D020510A, LCFOSS19.D020510A.

**Table 8.12.  Cost Characteristics for Advanced Nuclear Technology:  Three Cases**

| Advanced Nuclear Technology | Overnight Cost in 2009 (Reference) (2008$/kW) | Total Overnight Cost[1] | | |
| --- | --- | --- | --- | --- |
| | | Reference Case (2008$/kW) | High Nuclear Cost (2008$/KW) | Low Nuclear Cost (2008$/kW) |
| | 3820 | | | |
| 2015 | | 4089 | 4180 | 3470 |
| 2020 | | 3670 | 3994 | 2943 |
| 2025 | | 3203 | 3678 | 2514 |
| 2030 | | 2835 | 3370 | 2141 |
| 2035 | | 2496 | 3133 | 1872 |

[1]Total overnight cost (including project contingency, technological optimism and learning factors, but excluding regional multipliers), for projects online in the given year.

Source: AEO2010 National Energy Modeling System runs: AEO2010R.D111809A,  HCNUC09.D121109A, LCNUC09.D121109A.

# Notes and Sources

[1] These costs were developed using the National Energy Technology Laboratory Mercury Control Performance and Cost Model, 1998.

[2] U.S. Department of Energy, Analysis of Mercury Control Cost and Performance, Office of Fossil Energy & National Energy Technology Laboratory, January 2003.

[3]  Retrofitting Coal Fired Power Plants for Carbon Dioxide Capture and Sequestration - Exploratory Testing of NEMS for Integrated Assessments, DOE/NETL-2008/1309, P.A. Geisbrecht, January 18, 2009.

Sources referenced in Table 8.2.

World Bank Report, Study of Equipment Prices in the Power Industry, June 2008 draft.

Lawrence Berkeley National Laboratory, Annual Report on U.S. Wind Power Installation, Cost, and Performance Trends: 2007, LBNL-275E.

California Energy Commission, Integrated Energy Policy Report, CEC-100-2007-008-CMF, December, 2007.

Nuclear Energy Institute presentation, "Assessing the Economics of New Nuclear Power", Center for Strategic and International Studies, July 31, 2008.

Yangbo Du and John E. Parsons, Update on the Cost of Nuclear Power (May 2009), MIT-NFC-TR-108.
Cost and Performance Baseline for Fossil Energy Plants (August 2007), DOE/NETL-2007/1281.

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# Oil and Gas Supply Module

The NEMS Oil and Gas Supply Module (OGSM) constitutes a comprehensive framework with which to analyze oil and gas natural gas exploration and development on a regional basis (Figure 7). The OGSM is organized into 4 submodules: Onshore Lower 48 Oil and Gas Supply Submodule, Offshore Oil and Gas Supply Submodule, Oil Shale Supply submodule, and Alaska Oil and Gas Supply Submodule. A detailed description of the OGSM is provided in the EIA publication, *Model Documentation Report: The Oil and Gas Supply Module (OGSM)*, DOE/EIA-M063(2010), (Washington, DC, 2010). The OGSM provides crude oil and natural gas short-term supply parameters to both the Natural Gas Transmission and Distribution Module and the Petroleum Market Module. The OGSM simulates the activity of numerous firms that produce oil and natural gas from domestic fields throughout the United States.

**Figure 7. Oil and Gas Supply Model Regions**
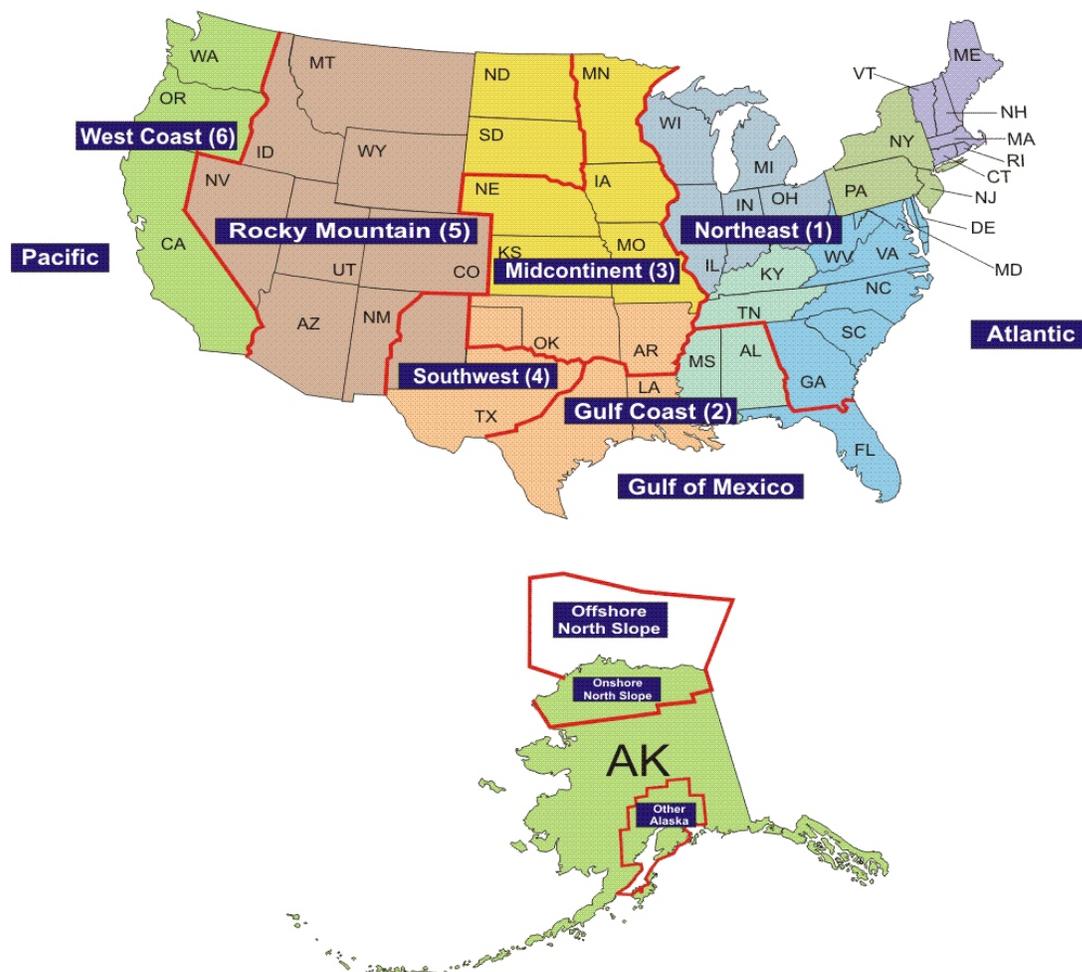


Source: Energy Information Administration, Office of Integrated Analysis and Forecasting.

OGSM encompasses domestic crude oil and natural gas supply by both conventional and nonconventional recovery techniques. Conventional oil recovery includes improved oil recovery processes such as water flooding, infill drilling, and horizontal continuity, as well as enhanced oil recovery processes such as $CO_2$ flooding, steam flooding, and polymer flooding. Conventional natural gas supply includes resources from low permeability tight sandstone formations. Nonconventional recovery includes unconventional oil recovery from highly fractured, continuous zones (e.g. Austin chalk and Bakken shale formations) and unconventional gas recovery from low permeability shale formations and coalbeds.

# Key Assumptions

## *Domestic Oil and Natural Gas Technically Recoverable Resources*

Domestic oil and natural gas technically recoverable resources [1] consist of proved reserves, [2] inferred reserves, [3] and undiscovered technically recoverable resources. [4] OGSM resource assumptions are based on estimates of technically recoverable resources from the United States Geological Survey (USGS) and the Minerals Management Service (MMS) of the Department of the Interior. [5] Supplemental adjustments to the USGS nonconventional natural gas resources are made to add some frontier plays that were not quantitatively assessed by the USGS. Similarly, 28.7 billion barrels are added to U.S. inferred reserves to reflect a revised assessment of the potential of enhanced oil recovery to increase the recoverability of remaining in-place resources. While undiscovered resources for Alaska are based on USGS estimates, estimates of recoverable resources are obtained on a field-by-field basis from a variety of sources including trade press. Published estimates in Tables 9.1 and 9.2 reflect the removal of intervening reserve additions between the date of the latest available assessment and January 1, 2008.

**Table 9.1. Technically Recoverable U.S. Crude Oil Resources as of January 1, 2008**

(billion barrels)

|  | Proved Reserves | Inferred Reserves | Undiscovered Technically Recoverale Resources | Total Technically Recoverable Resources |
|---|---|---|---|---|
| Lower 48 Onshore | 14.2 | 48.3 | 25.3 | 87.8 |
| Northeast | 0.3 | 0.2 | 0.7 | 1.3 |
| Gulf Coast | 1.7 | 2.8 | 8.6 | 13.2 |
| Midcontinent | 1.1 | 7.1 | 1.0 | 9.1 |
| Southwest | 5.4 | 22.7 | 2.6 | 30.6 |
| Rocky Mountain | 2.7 | 8.2 | 10.1 | 20.9 |
| West Coast | 3.1 | 7.3 | 2.3 | 12.7 |
| Lower 48 Offshore | 4.4 | 10.3 | 47.2 | 61.9 |
| Gulf (currently available) | 3.8 | 9.4 | 30.3 | 43.5 |
| Easter/Central Gulf (unavailable until 2022) | 0.0 | 0.0 | 3.7 | 3.7 |
| Pacific | 0.7 | 0.9 | 10.5 | 12.0 |
| Atlantic | 0.0 | 0.0 | 2.7 | 2.7 |
| Alaska (Onshore and Offshore) | 4.2 | 2.1 | 42.0 | 48.3 |
| Total U.S. | 22.8 | 60.7 | 114.5 | 198.0 |

Note:Resources in areas where drilling is officially prohibited are not included in this table. Estimates of the resources within a 50-mile buffer off the Atlantic coast are also excluded from the technically recoverable volumes.

Source: Conventional Onshore, State Offshore, and Alaska - U.S. Geological Survey (USGS); Federal (Outer Continental Shelf) Offshore - Minerals Management Service (MMS); Proved Reserves - EIA, Office of Oil and Gas. Table values reflect removal of intervening reserve additions between the date of the latest available assessment and January 1, 2008.

**Table 9.2.  Technically Recoverable U.S. Natural Gas Resources as of January 1, 2008**

(trillion cubic feet)

| | Proved Reserves | Inferred Reserves | Undiscovered Technically Recoverale Resources | Total Technically Recoverable Resources |
|---|---|---|---|---|
| **Lower 48 Onshore Non Associated** | 192.7 | 980.9 | 208.3 | 1382.0 |
| **Conventional** | 149.0 | 595.9 | 144.1 | 889.0 |
| Northeast | 10.0 | 55.5 | 8.9 | 74.4 |
| Gulf Coast | 45.2 | 154.3 | 75.2 | 274.6 |
| Midcontinent | 28.8 | 41.8 | 16.6 | 87.2 |
| Southwest | 12.4 | 51.9 | 14.6 | 78.9 |
| Rocky Mountain | 52.0 | 271.1 | 21.9 | 345.0 |
| West Coast | 0.7 | 21.2 | 7.0 | 28.9 |
| **Shale Gas** | 21.8 | 295.6 | 50.9 | 368.4 |
| Northeast | 6.0 | 73.2 | 0.0 | 79.2 |
| Gulf Coast | 6.6 | 90.3 | 0.0 | 96.9 |
| Midcontinent | 1.5 | 51.0 | 0.0 | 52.5 |
| Southwest | 7.5 | 59.5 | 0.0 | 67.0 |
| Rocky Mountain | 0.2 | 21.6 | 0.0 | 21.9 |
| West Coast | 0.0 | 0.0 | 50.9 | 50.9 |
| **Coalbed Methane** | 21.9 | 89.4 | 13.3 | 124.6 |
| Northeast | 1.8 | 4.6 | 0.0 | 6.4 |
| Gulf Coast | 1.8 | 5.1 | 0.0 | 6.8 |
| Midcontinent | 0.9 | 4.6 | 8.0 | 13.5 |
| Southwest | 0.0 | 0.0 | 0.0 | 0.0 |
| Rocky Mountain | 17.4 | 75.1 | 1.8 | 94.3 |
| West Coast | 0.0 | 0.0 | 3.6 | 3.6 |
| **Lower 48 Offshore Non Associated** | 12.4 | 50.7 | 233.0 | 296.0 |
| Gulf (currently available) | 12.4 | 50.4 | 167.6 | 230.4 |
| Eastern/Central Gulf (unavailable until 2022) | 0.0 | 0.0 | 21.5 | 21.5 |
| Pacific | 0.1 | 0.3 | 18.4 | 18.7 |
| Atlantic | 0.0 | 0.0 | 25.5 | 25.5 |
| **Associated-Dissolved Gas** | 20.7 | -- | 117.2 | 137.9 |
| **Alaska** | 11.9 | 24.8 | 266.1 | 302.0 |
| **Total U.S.** | 237.7 | 1056.3 | 824.6 | .2118.7 |

Note:  Resources in areas where drilling is officially prohibited are not included in this table. Estimates of the resources within a 50-mile buffer off the Atlantic coast are also excluded from the technically recoverable volumes. The Alaska value does not include stranded Arctic gas. The 117.2 Tcf of  undiscovered Associated-Dissolved natural gas includes inferred reserves.

Source:  Onshore, State Offshore, and Alaska - U.S. Geological Survey (USGS) with adjustments to Unconventional Gas Recovery resources by Advanced Resources, International; Federal (Outer Continental Shelf) Offshore - Minerals Management Service (MMS); Proved Reserves -- EIA,  Office of Oil and Gas.   Table values reflect removal of intervening reserve additions between the date of the latest available assessment and January 1, 2008.

## *Lower 48 Offshore*

The Onshore Lower 48 Oil and Gas Supply Submodule (OLOGSS) is a play-level model used to analyze crude oil and natural gas supply from onshore lower 48 sources.  The methodology includes a comprehensive assessment method for determining the relative economics of various prospects based on financial considerations, the nature of the resource, and the available technologies.  The general methodology relies on a detailed economic analysis of potential projects in known fields, enhanced oil recovery projects, and undiscovered resources.  The projects which are economically viable are developed subject to the availability of resource development constraints which simulate the existing and expected infrastructure of the oil and gas industries. For crude oil projects, advanced secondary or improved oil recovery techniques (e.g. infill drilling and horizontal continuity) and enhanced oil recovery (e.g. $CO_2$ flooding, steam flooding, and polymer flooding) processes are explicitly represented.  For natural gas projects, the OLOGSS represents both conventional (includes tight gas) and unconventional (shale gas and coalbed methane) natural gas supply.

The OLOGSS evaluates the economics of future crude oil and natural gas exploration and development from the perspective of an operator making an investment decision.  An important aspect of the economic calculation concerns the tax treatment. Tax provisions vary with the type of producer (major, large independent, or small independent). For the AEO2010, the economics of potential projects reflect the tax treatment provided by current laws for large independent producers. Relevant tax provisions are assumed unchanged over the life of the investment. Costs are assumed constant over the investment life but vary across region, fuel, and process type. Operating losses incurred in the initial investment period are carried forward and used against revenues generated by the project in later years.

## *Technology*

Technology advances, including improved drilling and completion practices, as well as advanced production and processing operations are explicitly modeled to determine the direct impacts on supply, reserves, and various economic parameters. The success of the technology program is measured by estimating the probability that the technology development program will be successfully completed.  It reflects the pace at which technology performance improves and the probability that the technology project will meet the program goals.  There are four possible curves which represent the adoption of the technology: convex, concave, sigmoid/logistic or linear.  The convex curve corresponds to rapid initial market penetration followed by slow market penetration.  The concave curve corresponds to slow initial market penetration followed by rapid market penetration.  The sigmoid/logistic curve represents a slow initial adoption rate followed by rapid increase in adoption and the slow adoption again as the market becomes saturated.  The linear curve represents a constant rate of market penetration, and may be used when no other predictions can be made.

The market penetration curve is a function of the relative economic attractiveness of the technology instead of being a time-dependent function.  A technology will not be implemented unless the benefits through increased production or cost reductions are greater than the cost to apply the technology.  As a result, the market penetration curve provides a limiting value on commercialization instead of a specific penetration path.  In addition to the curve, the implementation probability captures the fact that not all technologies that have been proved in the lab are able to be successfully implemented in the field.  The specific technology levers and assumptions are shown in Table 9.3.

**Table 9.3. Onshore Lower 48 Technology Assumptions**

| | Ultimate Market Penetra-tion | Market Penetra-tion Curve | Probability of Successful R&D | Probability of Implemen-tation | Drilling Success Rate | Explo-ration Sucess Rate | Injec-tion Rate | Estimated Ultimate Recovery |
|---|---|---|---|---|---|---|---|---|
| Conventional Oil | | | | | | | | |
| Infill Drilling | 59% | linear | 50% | 44% | 3% | 3% | -- | 1% |
| Horizonal Continuity | 60% | linear | 51% | 44% | 3% | 3% | 25% | 2.3% |
| Horizonal Profile | 61% | concave | 49% | 45% | 3% | 3% | 2% | 1% |
| CO2 Flooding | 61% | linear | 51% | 43% | 3% | 3% | 38% | 4.2% |
| Steam Flooding | 60% | logistic | 49% | 44% | 3% | 3% | 1% | 9% |
| Polymer Flooding | 61% | concave | 50% | 44% | 3% | 3% | 12.3% | 6% |
| Profile Modification | 59% | concave | 51% | 42% | 3% | 3% | -- | 6% |
| Undiscovered | 60% | concave | 48% | 44% | 3% | 3% | -- | 8% |
| Unconventiona Oil | 60% | concave | 48% | 44% | 3% | 3% | -- | 8% |
| | | | | | | | | |
| Conventional Gas | | | | | | | | |
| Developing | 61% | linear | 48% | 46% | 3% | 3% | -- | 4% |
| Undiscovered | 61% | linear | 49% | 45% | 3% | 3% | -- | 7% |
| Shale Gas | | | | | | | | |
| Developing | 61% | linear | 48% | 45% | 3% | 3% | -- | 8% |
| Undiscovered | 61% | linear | 48% | 45% | 3% | 3% | -- | 7% |
| Coalbed Methane | | | | | | | | |
| Developing | 60% | linear | 50% | 44% | 3% | 3% | -- | 5% |
| Undiscovered | 60% | linear | 49% | 43% | 3% | 3% | -- | 5% |

Source: Office of Integrated Analysis and Forecasting.

### $CO_2$ Enhanced Oil Recovery

For $CO_2$ miscible flooding, the OLOGSS incorporates both industrial and natural sources of $CO_2$. The industrial sources of $CO_2$ are:

- Hydrogen plants
- Ammonia plants
- Ethanol plants
- Cement plants
- Refineries
- Fossil fuel power plants

Technology and market constraints prevent the total volumes of $CO_2$ (Table 9.4) from becoming immediately available. The development of the $CO_2$ market is divided into 3 periods: 1) technology R&D, 2) infrastructure construction, and 3) market acceptance. The capture technology is under development during the R&D phase, and no $CO_2$ is available at that time. During the infrastructure development, the required capture equipment, pipelines, and compressors are being constructed, and no $CO_2$ is available. During the market acceptance phase, the capture technology is being widely implemented and volumes of $CO_2$ first become available. The number of years in each development period is shown in Table 9.5.

### Table 9.4.  Maximum Volume of $CO_2$ Available
(billion cubic feet)

| OGSM Region | Natural Source of $CO_2$ | Industrial Sources of $CO_2$ | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| | | Hydrogen | Ammonia | Ethanol | Cement | Refineries | Fossil Fuel |
| Northeast | -- | 12 | -- | 31 | 272 | 444 | 12980 |
| Costs | 80 | 146 | 118 | -- | 131 | 1152 | 3930 |
| Midcontinent | 13 | 8 | 8 | 77 | -- | 103 | 752 |
| Southwest | 742 | -- | -- | -- | -- | 292 | -- |
| Rocky Mountains | 114 | 14 | -- | -- | -- | 91 | 4041 |
| West Coast | -- | 163 | -- | -- | -- | -- | 60 |
| Total | 949 | 343 | 126 | 108 | 403 | 2082 | 21763 |

Source:  Office of Integrated Analysis and Forecasting.

### Table 9.5.  $CO_2$ Availability Assumptions

| Source Type | R&D Phase (years) | Infrastructure Development (years) | Market Acceptance (years) | Ultimate Market Acceptance |
| --- | --- | --- | --- | --- |
| Natural | 0 | 1 | 3 | 100% |
| Hydrogen Plants | 5 | 4 | 7 | 100% |
| Ammonia Plants | 5 | 4 | 7 | 100% |
| Ethanol Plants | 5 | 4 | 7 | 100% |
| Cement Plants | 8 | 5 | 7 | 100% |
| Refineries | 8 | 8 | 7 | 100% |
| Fossil Fuel Plants | 8 | 8 | 7 | 100% |

Source:  Office of Integrated Analysis and Forecasting.

The cost of $CO_2$ from natural sources is a function of the oil price.  For industrial sources of $CO_2$, the cost to the producer includes the cost to capture, compress to pipeline pressure, and transport to the project site via pipeline within the region (Table 9.6).  Inter-regional pipelines are not built.

### Table 9.6.  Industrial $CO_2$ Capture & Transportation Costs by Region and Source
($/mcf)

| OGSM Region | Industrial Sources of $CO_2$ | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| | Hydrogen | Ammonia | Ethanol | Cement | Refineries | Fossil Fuel |
| Northeast | $0.92 | $0.92 | $0.99 | $2.93 | $2.94 | $3.22 |
| Costs | $9.92 | $0.93 | $1.01 | $2.92 | $2.93 | $3.22 |
| Midcontinent | $0.92 | $0.90 | $1.02 | $2.91 | $2.94 | $3.22 |
| Southwest | $0.92 | $0.92 | $1.01 | $2.92 | $2.94 | $3.22 |
| Rocky Mountains | $0.92 | $0.92 | $1.01 | $2.92 | $2.94 | $3.22 |
| West Coast | $0.92 | $0.92 | $1.01 | $2.92 | $2.94 | $3.22 |

Source:  Office of Integrated Analysis and Forecasting.

## Lower 48 Offshore

Most of the Lower 48 offshore oil and gas production comes from the deepwater of the Gulf of Mexico (GOM).  Production from current producing fields and industry announced discoveries largely determine the short-term oil and natural gas production projection.

For currently producing fields, a 20-percent exponential decline is assumed for production except for natural gas production from fields in shallow water, which uses a 30-percent exponential decline.  Fields that began production after 2008 are assumed to remain at their peak production level for 2 years before declining.

The assumed field size and year of initial production of the major announced deepwater discoveries that were not brought into production by 2007 are shown in Table 9.7. A field that is announced as an oil field is assumed to be 100 percent oil and a field that is announced as a gas field is assumed to be 100 percent gas. If a field is expected to produce both oil and gas, 70 percent is assumed to be oil and 30 percent is assumed to be gas.

Production is assumed to

- ramp up to a peak level in 2 to 4 years depending on the size of the field,

**Table 9.6. Assumed Rates of Technological Progress for Unconventional Gas Recovery**

| Field/Project Name | Block | Water Depth (feet) | Year of Discovery | Field Size Class | Field Size (MMBoe) | Start Year of Production |
|---|---|---|---|---|---|---|
| Great White | AC857 | 8717 | 2002 | 14 | 372 | 2010 |
| Telemark | AT063 | 4457 | 2000 | 12 | 89 | 2010 |
| Droshky | GC244 | 2900 | 2007 | 12 | 89 | 2010 |
| Hornet | GC379 | 3878 | 2001 | 13 | 182 | 2010 |
| GC488 | GC449 | 3266 | 2008 | 12 | 89 | 2010 |
| MC503 | MC503 | 3099 | 2008 | 14 | 372 | 2010 |
| Cascade | WR206 | 8143 | 2002 | 14 | 372 | 2010 |
| Chinook | WR469 | 8831 | 2003 | 14 | 372 | 2010 |
| Trident | AC903 | 9743 | 2001 | 13 | 182 | 2011 |
| Ozona | GB515 | 3000 | 2008 | 12 | 89 | 2011 |
| Knotty Head | GC512 | 3557 | 2005 | 15 | 691 | 2011 |
| West Tonga | GC726 | 4674 | 2007 | 12 | 89 | 2011 |
| Ringo | MC546 | 2460 | 2006 | 14 | 372 | 2011 |
| Tubular Bells | MC725 | 4334 | 2003 | 12 | 89 | 2011 |
| Pony | GC468 | 3497 | 2006 | 13 | 182 | 2012 |
| Norman | GB434 | 5000 | 2006 | 15 | 691 | 2013 |
| Puma | GC823 | 4129 | 2003 | 14 | 372 | 2013 |
| Kaskida | KC292 | 5860 | 2006 | 15 | 691 | 2013 |
| Big Foot | WR029 | 5235 | 2005 | 12 | 89 | 2013 |
| St. Malo | WR678 | 7036 | 2003 | 14 | 372 | 2013 |
| Jack | WR759 | 6963 | 2004 | 14 | 372 | 2013 |
| Grand Cayman | GB517 | 5000 | 2006 | 13 | 182 | 2014 |
| Kodiak | MC771 | 4986 | 2008 | 15 | 691 | 2015 |
| Stones | WR508 | 9556 | 2005 | 12 | 89 | 2015 |
| Entrada | GB782 | 4690 | 2000 | 14 | 372 | 2016 |
| Freedom | MC948 | 6095 | 2008 | 15 | 691 | 2017 |
| Julia | WR627 | 7087 | 2007 | 12 | 89 | 2017 |
| Hal | WR848 | 7657 | 2008 | 12 | 89 | 2018 |
| Tiber | KC102 | 4132 | 2009 | 16 | 1419 | 2019 |

Source: Office of Integrated Analysis and Forecasting.

- remain at the peak level until the ratio of cumulative production to initial resource reaches 20 percent for oil and 30 percent for natural gas,
- and then decline at an exponential rate of 20-30 percent.

The discovery of new fields (based on MMS's field size distribution) is assumed to follow historical patterns. Production from these fields is assumed to follow the same profile as the announced discoveries (as described in the previous paragraph).

Advances in technology for the various activities associated with crude oil and natural gas exploration, development, and production can have a profound impact on the costs associated with these activities. The specific technology levers and values for the offshore are presented in Table 9-8.

**Table 9.8.  Offshore Exploration and Production Technology Levels**

| Technology Level | Total Improvement (percent) | Number of Years |
|---|---|---|
| Exploration success rates | 30 | 30 |
| Delay to commence first exploration and between | 15 | 30 |
| Exploration & development drilling costs | 30 | 30 |
| Operating cost | 30 | 30 |
| Time to construct production facility | 15 | 30 |
| Production facility construction costs | 30 | 30 |
| Initial constant production rate | 15 | 30 |
| Decline rate | 0 | 30 |

Source:  Office of Integrated Analysis and Forecasting.

## Oil Shale Liquids Production

Projections for oil shale liquids production are based on underground mining and surface retorting technology and costs. The facility parameter values and cost estimates assumed in the projection are based on information reported for the Paraho Oil Shale Project, with the costs converted into 2004 dollars.[6] Oil shale rock mining costs, however, are based on current Rocky Mountain underground coal mining costs, which are representative oil shale rock mining costs. Oil shale facility investment and operating costs are assumed to decline by 1 percent per year. The construction of commercial oil shale production facilities is not permitted prior to 2017, based on the current status of petroleum company research, development and demonstration (RD&D) programs.

Although the petroleum company oil shale RD&D programs are focused on the in-situ production of oil shale liquids, the underground mining and surface retorting process shares many similarities with the in-situ process. Moreover, because the in-situ process is still at the experimental stage, there are no publicly available estimates as to the in-situ process capital and operating costs required to produce a barrel of oil shale liquids at a commercial scale. Consequently, the underground mining and surface retorting costs, in conjunction with the 1 percent per year cost decline, are intended to be a surrogate for the in-situ process costs.

Oil shale production facilities are assumed to be built when the net present value of the discounted cash flow exceeds zero. The discounted cash flow calculation uses a calculated discount rate that takes into consideration the financial risk associated with building oil shale facilities. Oil shale facilities take 5 years to construct, with an additional 5 years required to bring an in-situ facility into full production.  An assumed technology penetration rate specifies that 5 years must pass from the time the first facility begins construction before the second facility can begin construction. Subsequent facilities are permitted to begin construction 3 years, 2 years, and then every year after a prior facility begins construction. Oil shale liquids production is not resource constrained, because approximately 400 billion barrels of petroleum liquids exist in oil shale rock with at least 30 gallons per ton of rock.

Because the in-situ process is still at the experimental stage, and because the underground mining and surface retorting process is unlikely to be environmentally acceptable, the oil shale liquids production projections should be considered highly uncertain.

## Alaska Crude Oil Production

Projected Alaska oil production includes both existing producing fields and undiscovered fields that are expected to exist, based upon the region's geology. The existing fields category includes the expansion fields around the Prudhoe Bay and Alpine Fields for which companies have already announced development schedules. The initial production from these fields occurs in the first few years of the projection, with the projected oil production and the date of commencement based on the most current petroleum company announcements. Alaska crude oil production from the undiscovered fields is determined by the estimates of available resources in undeveloped areas and the net present value of the cash flow calculated for these undiscovered fields based on the expected capital and operating costs, and on the projected prices.  Based on the latest U.S. Geological Survey resource assessments, the remaining North Slope fields are expected to be primarily small and mid-size oil fields that are smaller than the Alpine Field.

Oil and gas exploration and production currently are not permitted in the Alaska National Wildlife Refuge. The projections for Alaska oil and gas production assume that this prohibition remains in effect throughout the projection period.

The greatest uncertainty associated with the Alaska oil projections is whether the heavy oil deposits located on the North Slope, which exceed 20 billion barrels of oil-in-place, will be producible in the foreseeable future at recovery rates exceeding a few percent.

# Legislation and Regulations

The Outer Continental Shelf Deep Water Royalty Act (Public Law 104-58) gave the Secretary of Interior the authority to suspend royalty requirements on new production from qualifying leases and required that royalty payments be waived automatically on new leases sold in the 5 years following its November 28, 1995, enactment. The volume of production on which no royalties were due for the 5 years was assumed to be 17.5 million barrels of oil equivalent (BOE) in water depths of 200 to 400 meters, 52.5 million BOE in water depths of 400 to 800 meters, and 87.5 million BOE in water depths greater than 800 meters. In any year during which the arithmetic average of the closing prices on the New York Mercantile Exchange for light sweet crude oil exceeded $28 per barrel or for natural gas exceeded $3.50 per million Btu, any production of crude oil or natural gas was subject to royalties at the lease stipulated royalty rate. Although automatic relief expired on November 28, 2000, the act provided the MMS the authority to include royalty suspensions as a feature of leases sold in the future. In September 2000, the MMS issued a set of proposed rules and regulations that provide a framework for continuing deep water royalty relief on a lease by lease basis. In the model it is assumed that relief will be granted roughly the same levels as provided during the first 5 years of the act.

Section 345 of the Energy Policy Act of 2005 provides royalty relief for oil and gas production in water depths greater than 400 meters in the Gulf of Mexico from any oil or gas lease sale occurring within 5 years after enactment. The minimum volume of production with suspended royalty payments are:

(1) 5,000,000 barrels of oil equivalent (BOE) for each lease in water depths of 400 to 800 meters;

(2) 9,000,000 BOE for each lease in water depths of 800 to 1,600 meters;

(3)12,000,000 BOE for each lease in water depths of 1,600 to 2,000 meters; and

(4) 16,000,000 BOE for each lease in water depths greater than 2,000 meters.

The water depth categories specified in Section 345 were adjusted to be consistent with the depth categories in the Offshore Oil and Gas Supply Submodule. The suspension volumes are 5,000,000 BOE for leases in water depths 400 to 800 meters; 9,000,000 BOE for leases in water depths of 800 to 1,600 meters; 12,000,000 BOE for leases in water depth of 1,600 to 2,400 meters; and 16,000,000 for leases in water depths greater than 2,400 meters. Examination of the resources available at 2,000 to 2,400 meters showed that the differences between the depths used in the model and those specified in the bill would not materially affect the model result.

The Minerals Management Service published its final rule on the "Oil and Gas and Sulphur Operations in the Outer Continental Shelf-Relief or Reduction in Royalty Rates-Deep Gas Provisions" on January 26, 2004, effective March 1, 2004. The rule grants royalty relief for natural gas production from wells drilled to 15,000 feet or deeper on leases issued before January 1, 2001, in the shallow waters (less than 200 meters) of the Gulf of Mexico. Production of gas from the completed deep well must begin before 5 years after the effective date of the final rule. The minimum volume of production with suspended royalty payments is 15 billion cubic feet for wells drilled to at least 15,000 feet and 25 billion cubic feet for wells drilled to more than 18,000 feet. In addition, unsuccessful wells drilled to a depth of at least 18,000 feet would receive a royalty credit for 5 billion cubic feet of natural gas. The ruling also grants royalty suspension for volumes of not less than 35 billion cubic feet from ultra-deep wells on leases issued before January 1, 2001.

Section 354 of the Energy Policy Act of 2005 established a competitive program to provide grants for cost-shared projects to enhance oil and natural gas recovery through $CO_2$ injection, while at the same time sequestering $CO_2$ produced from the combustion of fossil fuels in power plants and large industrial processes.

From 1982 through 2008, Congress did not appropriate funds needed by the Minerals Management Service (MMS) to conduct leasing activities on portions of the Federal Outer Continental Shelf (OCS) and thus effectively prohibited leasing. Further, a separate Executive ban in effect since 1990 prohibited leasing through 2012 on the OCS, with the exception of the Western Gulf of Mexico and portions of the Central and Eastern Gulf of Mexico. When combined these actions prohibited drilling in most offshore regions, including areas along the Atlantic and Pacific coasts, the eastern Gulf of Mexico, and portions of the central Gulf of Mexico. In 2006, the Gulf of Mexico Energy Security Act imposed yet a third ban on drilling through 2022 on tracts in the Eastern Gulf of Mexico that are within 125 miles of Florida, east of a dividing line known as the Military Mission Line, and in the Central Gulf of Mexico within 100 miles of Florida.

On July 14, 2008, President Bush lifted the Executive ban and urged Congress to remove the Congressional ban. On September 30, 2008, Congress allowed the Congressional ban to expire. Although the ban through 2022 on areas in the Eastern and Central Gulf of Mexico remains in place, the lifting of the Executive and Congressional bans removed regulatory obstacles to development of the Atlantic and Pacific OCS.

## Oil and Gas Supply Alternative Cases

### Rapid and Slow Technology Cases

Two alternative cases were created to assess the sensitivity of the projections to changes in the assumed rates of progress in oil and natural gas supply technologies. To create these cases a number of parameters representing technological penetration in the reference case were adjusted to reflect a more rapid and a slower penetration rate. In the reference case, the underlying assumption is that technology will continue to penetrate at historically observed rates. Since technologies are represented somewhat differently in different submodules of the Oil and Gas Supply Module, the approach for representing rapid and slow technology penetration varied as well. For instance, the effects of technological progress on crude oil and natural gas parameters in the reference case, such as finding rates, drilling, lease equipment and operating costs, and success rates, were adjusted upward and downward by 50 percent, for the rapid and slow technology cases, respectively.

In the Canadian supply submodule, successful natural gas wells drilled for conventional and tight formations in the Western Canadian Sedimentary Basin (WCSB) are assumed to be 10 percent higher or lower in the rapid and slow technology cases, respectively, than they would be otherwise. For the other unconventional sources (coalbed and shale gas), the assumed undiscovered resource levels are progressively increased or ecreased (in the rapid and slow cases, respectively) over the forecast period to a level reaching 15 percent by 2030. In addition, the otherwise projected production levels for these unconventional sources are increased or decreased (in the rapid and slow cases, respectively) progressively over the forecast period to a level reaching 25 percent by 2030. Finally, the minimum supply prices deemed necessary to trigger the Alaska and MacKenzie Delta natural gas pipelines are progressively decreased or increased over the projection in the rapid and slow technology cases, respectively, downward or upward from 0.0 to 12.5 percent by 2030. All other parameters in the model were kept at their reference case values, including technology parameters for other modules, parameters affecting foreign oil supply, and assumptions about imports and exports of LNG and natural gas trade between the United States and Mexico. Production costs in the MacKenzie Delta vary across the projection period based on the estimated change in drilling costs in the lower 48 states, indirectly capturing the impact of different assumptions about technological improvement.

### No Shale Gas and No Low Permeability Gas Drilling Cases

The use of hydraulic fracturing in conjunction with horizontal drilling has opened up resources in low permeability formations that would not be commercially viable without the technology. Public concern, however, has been raised regarding the extensive use of hydraulic fracturing because of the large volumes of water required, the chemicals added to fracturing fluids, and the disposal of these fluids after a well has been completed. Another concern is the potential contamination of underground aquifers used for drinking water. Limiting the use of hydraulic fracturing would impact natural gas production from low permeability reservoirs. Two cases were created to examine the impact of not permitting drilling in low permeability formations.

*No Shale Gas Drilling Case*: Starting in 2010, no new onshore, lower-48 shale gas wells are drilled. Gas production from low permeability wells drilled prior to 2010 continuously declines through 2035.

***No Low Permeability Gas Drilling Case***: Starting in 2010, no new onshore, lower-48 low permeability gas production wells are drilled, including shale gas wells and "tight" sandstone and carbonate gas wells.  Gas production from low permeability wells drilled prior to 2010 continuously declines through 2035.

Assumptions underlying the drilling of Canadian and other international natural gas wells were not changed.

## *High Shale Gas Resource Case*

Over the last 15 years, as shale gas production expanded into more petroleum basins and as technology improved, the size of the National Energy Modeling System's shale gas resource base has increased. Because the exploitation of shale gas resources is still in its initial stages and because many shale beds have not yet been tested, there is a great deal of uncertainty surrounding the size of the shale gas resource base. A high shale gas resource case was created to examine the impact of increased shale gas resources on the domestic natural gas market. The onshore, lower 48 shale gas resource base was increased by 88 percent from 347 trillion cubic feet in the reference case to 652 trillion cubic feet in the high shale gas resource gas. This case assumes no change in Canadian and other international natural gas resources.

# Notes and Sources

[1] Technically recoverable resources are resources in accumulations producible using current recovery technology but without reference to economic profitability.

[2] Proved reserves are the estimated quantities that analysis of geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

[3] Inferred reserves are that part of expected ultimate recovery from known fields in excess of cumulative production plus current reserves.

[4] Undiscovered resources are located outside oil and gas fields in which the presence of resources has been confirmed by exploratory drilling; they include resources from undiscovered pools within confirmed fields when they occur as unrelated accumulations controlled by distinctly separate structural features or stratigraphic conditions.

[5] Donald L. Gautier and others, U.S. Department of Interior, U.S. Geological Survey, 1995 National Assessment of the United States Oil and Gas Resources, (Washington, D.C., 1995); U.S. Department of Interior, Minerals Management Service, Report to Congress: Comprehensive Inventory of U.S. OCS Oil and Natural Gas Resources, (February 2006); and 2003 estimates of conventionally recoverable hydrocarbon resources of the Gulf of Mexico and Atlantic Outer Continental Shelf as of January 1, 2003.

[6] Source: Noyes Data Corporation, Oil Shale Technical Data Handbook, edited by Perry Nowacki, Park Ridge, New Jersey, 1981, pages 89-97. The Paraho Oil Shale Project design had a maximum production rate of 100,000 syncrude barrels per day, which is used in the OSSS as the standard oil shale facility size.

# Natural Gas Transmission and Distribution Module

The NEMS Natural Gas Transmission and Distribution Module (NGTDM) derives domestic natural gas production, wellhead and border prices, end-use prices, and flows of natural gas through the regional interstate network, for both a peak (December through March) and off peak period during each projection year. These are derived by solving for the market equilibrium across the three main components of the natural gas market: the supply component, the demand component, and the transmission and distribution network that links them. Natural gas flow patterns are a function of the pattern in the previous year, coupled with the relative prices of the supply options available to bring gas to market centers within each of the NGTDM regions (Figure 8). The major assumptions used within the NGTDM are grouped into five general categories. They relate to (1) structural components of the model, (2) capacity expansion and pricing of transmission and distribution services, (3) Arctic pipelines, and (4) imports and exports. A complete listing of NGTDM assumptions and in-depth methodology descriptions are presented in *Model Documentation: Natural Gas Transmission and Distribution Model of the National Energy Modeling System, Model Documentation 2009,* DOE/EIA-M062(2009) (Washington, DC, 2009).

**Figure 8. Natural Gas Transmission and Distribution Model Regions**
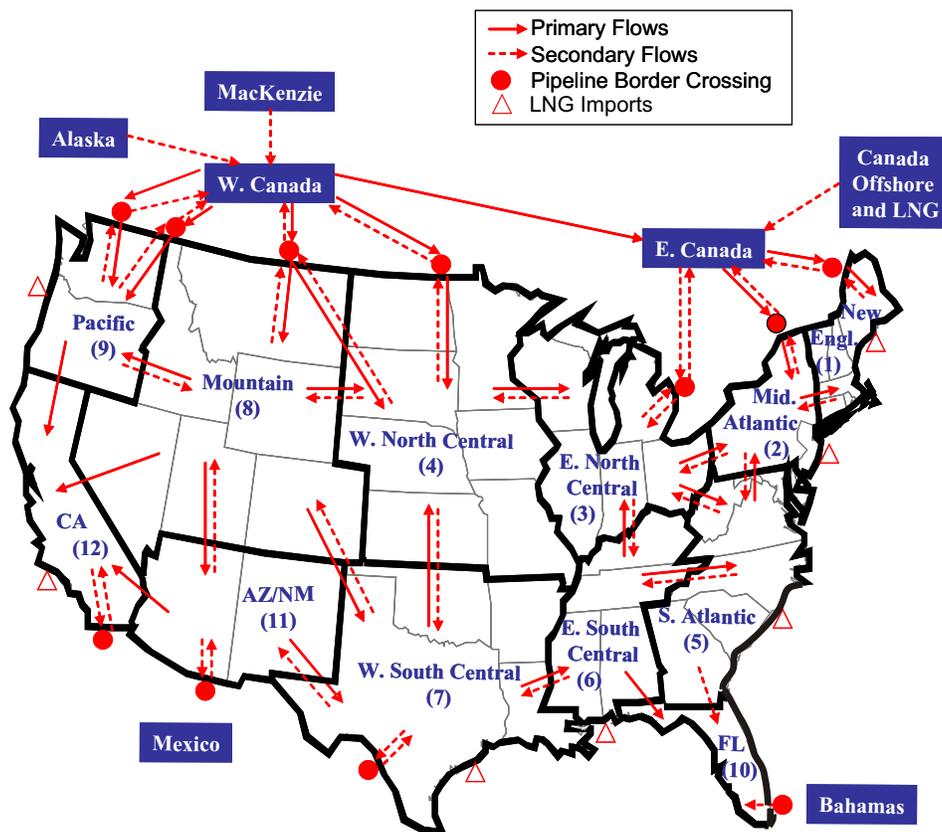


Source: Energy Information Administration, Office of Integrated Analysis and Forecasting

# Key Assumptions

## Structural Components

The primary and secondary region-to-region flows represented in the model are shown in Figure 8. Primary flows are determined, along with nonassociated gas production levels, as the model equilibrates supply and demand. Associated-dissolved gas production is determined in the Oil and Gas Supply Module (OGSM). Secondary flows are established before the equilibration process and are generally set exogenously. Liquefied natural gas (LNG) imports are also not directly part of the equilibration process, but are set at the beginning of each NEMS iteration in response to the price from the previous iteration. Flows and production levels are determined for each season, linked by seasonal storage. When required, annual quantities (e.g., consumption levels) are split into peak and offpeak values based on historical averages. When multiple regions are contained in a Census Division, regional end-use consumption levels are approximated using historical average shares. Pipeline and storage capacity are added as warranted by the relative volumes and prices. Regional pipeline fuel and lease and plant fuel consumption are established by applying an historically based factor to the flow of gas through a region and the production in a region, respectively. Prices within the network, including at the borders and the wellhead, are largely determined during the equilibration process. Delivered prices for each sector are set by adding an endogenously estimated markup (generally a distributor tariff) to the regional representative citygate price. Supply curves and electric generator gas consumption are provided by other NEMS modules for subregions of the NGTDM regions, reflective of how their internal regions overlap with the NGTDM regions.

## Capacity Expansion and Pricing of Transmission and Distribution Services

For the first 2 projection years, announced pipeline and storage capacity expansions (that are deemed highly likely to occur) are used to establish limits on flows and seasonal storage in the model. Subsequently, pipeline and storage capacity is added when increases in consumption, coupled with an anticipated price increase, warrant such additions (i.e., flow is allowed to exceed current capacity if the demand still exists given an assumed increased tariff). Once it is determined that an expansion will occur, the associated capital costs are applied in the revenue requirement calculations in future years. Capital costs are assumed based on average costs of recent comparable expansions for compressors, looping, and new pipeline.

It is assumed that pipeline and local distribution companies build and subscribe to a portfolio of interstate pipeline and storage capacity to serve a region-specific colder-than-normal winter demand level, currently set at 30 percent above the daily average. Maximum pipeline capacity utilization in the peak period is set at 99 percent. In the off-peak period, the maximum is assumed to vary between 75 and 99 percent of the design capacity. The overall level and profile of consumption, as well as the availability and price of supplies, generally cause realized pipeline utilization levels to be lower than the maximum.

## Pricing of Services

While transportation tariffs for interstate pipeline services are initially based on a regulated cost-of-service calculation, an adjustment to the tariffs is applied which is dependent on the realized utilization rate, to reflect a market-based differential. Transportation rates for interstate pipeline services (both between NGTDM regions and within a region) are calculated assuming that the costs of new pipeline capacity will be rolled into the existing rate base.

Delivered prices by sector and season are derived by adding a markup to the average regional market price of natural gas in both peak and off-peak periods. (Prices are reported on an annual basis and represent quantity-weighted averages of the two seasons.) These markups include the cost of service provided by intraregional interstate pipelines, intrastate pipelines, and local distributors. The intrastate tariffs are accounted for endogenously through historical model benchmarking. Distributor tariffs represent the difference between the regional delivered and citygate price, independent of whether or not a customer class typically purchases gas through a local distributor.

The distribution tariffs are projected using econometrically estimated equations, primarily in response to changes in consumption levels. An assumed differential is used to divide the industrial price into one for noncore customers (refineries and industrial boiler users) and one for core customers who have less alternative fuel options.

The vehicle natural gas (VNG) sector is divided into fleet and non-fleet vehicles. In general, the distributor tariffs for natural gas to vehicles are set to *EIA's Natural Gas Annual* historical end-use prices minus citygate prices plus Federal and State VNG taxes (held constant in nominal dollars) plus an assumed dispensing cost. Dispensing costs are assumed to be $2.34 (2008 dollars per mcf) as long as natural gas vehicles do not increase notably in market share. The assumed cost for adding a compressed natural gas retail facility is $395,000 (2008 dollars) and is not considered economically viable at the low vehicle penetration rates projected.

## *Pipelines from Arctic Areas into Alberta*

The outlook for natural gas production from the North Slope of Alaska is affected strongly by the unique circumstances regarding its transport to market. Unlike virtually all other identified deposits of natural gas in the United States, North Slope gas lacks a means of economic transport to major commercial markets. The lack of viable marketing potential at present has led to the use of Prudhoe Bay gas to maximize crude oil recovery in that field. The primary assumptions associated with estimating the cost of North Slope Alaskan gas in Alberta, as well as for MacKenzie Delta gas into Alberta, are shown in Table 10.1. A calculation is performed to estimate a regulated, levelized, tariff for each pipeline. Additional items are added to account for the wellhead price, treatment costs, pipeline fuel costs, and a risk premium to reflect the potential impact on the market price once the pipeline comes on line.

To assess the market value of Alaskan and Mackenzie Valley gas against the lower-48 market, a price differential of $0.72 (2008 dollars per Mcf) is assumed between the price in Alberta and the average lower 48 price. The resulting cost of Alaska gas, relative to the lower 48 wellhead price, is approximately $5.74 (2008 dollars per Mcf), with some variation across the projection due to changes in gross domestic product. Construction of an Alaska-to-Alberta pipeline is projected to commence if the assumed total costs for Alaska gas in the lower 48 States exceeds the average lower 48 gas price in each of the previous 2 years, on average over the previous 5 years (with greater weight applied to more recent years), and as expected to average over the next 3 years. An adjustment is made if prices were declining over the previous 5 years. Once the assumed 4-year construction period is complete, expansion can occur if the price exceeds the initial trigger price by $6.58 (2008 dollars per Mcf). Supplies to fill an expanded pipeline are assumed to require new gas wells. When the Alaska to Alberta pipeline is built in the model, additional pipeline capacity is added to bring the gas across the border into the United States. For accounting purposes, the model assumes that all of the Alaska gas will be consumed in the United States and that sufficient economical supplies are available at the North Slope to fill the pipeline over the depreciation period.

Natural gas production from the MacKenzie Delta is assumed to be sufficient to fill a pipeline over the projection period should one be built connecting the area to markets in the south. The basic methodology used to represent the decision to build a MacKenzie pipeline is similar to the process used for an Alaska-to-lower 48 pipeline, using the primary assumed parameters listed in Table 10.1. One exception is that wellhead costs are assumed to change across the projection period with estimated changes to drilling costs for the lower 48 States.

## *Supplemental Natural Gas*

The projection for supplemental gas supply is identified for three separate categories: pipeline quality synthetic natural gas (SNG) from coal or coal-to-gas (CTG), SNG from liquids, and other supplemental supplies (propane-air, coke oven gas, refinery gas, biomass air, air injected for Btu stabilization, and manufactured gas commingled and distributed with natural gas). The third category, other supplemental supplies, are held at a constant level of 10.1 billion cubic feet per year throughout the projection because this level is consistent with historical data and it is not believed to change significantly in the context of a reference case. SNG from liquid hydrocarbons in Hawaii is assumed to continue over the projection at the average historical level of 2.7 billion cubic feet per year. SNG production from coal at the currently operating Great Plains Coal Gasification Plant is also assumed to continue through the projection period at an average historical level of 51.3 billion cubic feet per year. It is assumed that additional CTG facilities will be built if and when natural gas prices are high

**Table 10.1. Primary Assumptions for Natural Gas Pipelines from Alaska and MacKenzie Delta into Alberta, Canada**

|  | Alaska to Alberta | MacKenzie Delta to Alberta |
|---|---|---|
| Initial flow into Alberta | 3.9 Bcf per day | 1.1 Bcf per day |
| Expansion potential | 22 percent | 58 percent |
| Initial capitalization | 28.2 billion (2008 dollars) | $10.5 billion (2008 dollars) |
| Cost of Debt (premium over BAA bond rate) | 0.0 percent | 0.0 percent |
| Cost of equity (premium over 10 year treasury yield note) | 7.5 percent | 7.5 percent |
| Debt fraction | 60 percent | 60 percent |
| Depreciation period | 20 years | 20 years |
| Minimum wellhead price (including  Treatment and fuel costs) | $1.69 (2008 dollars per Mcf) | $3.09 (2008 dollars per Mcf) |
| Expected price reduction | $0.84 (2008 dollars per Mcf) | $0.06 (2008 dollars per Mcf) |
| Additional cost for expansion | $6.58 (2008 dollars per Mcf)* | $0.36 (2008 dollars per Mcf) |
| Construction period | 4 years | 4 years |
| Planning period | 5 years | 2 years |
| Earliest start year | 2020 | 2014 |

* Includes added cost to explore for and produce natural gas beyond what has already been proven.

Source:  Energy Information Administration, Office of Integrated Analysis and Forecasting.  Alaska pipeline cost data are based on November 2007 pipeline proposals submitted in compliance with the Alaska Gas line Inducement Act (A61A) requirements by Conoco Phllips and Trans Canada Pipelines to the State of Alaska.

National Energy Board of Canada, "Mackenzie Gas Project – Hearing Order GH-1-2004, Supplemental Information – Project Update 2007," dated May 15, 2007;

National Energy Board of Canada, "Mackenzie Gas Project – Project Cost Estimate and Schedule Update," dated March 12, 2007; Canada Revenue Agency, "T2 Corporation Income Tax Guide 2006," T4012(E) Rev. 07.
Indian and Northern Affairs Canada, "Oil and Gas in Canada's North," website address
http://www.ainc-inac.gc.ca/ps/ecd/env/nor_e.html.
National Energy Board of Canada, "Application for Approval of the Development Plan for Taglu Field - Project Description," submitted by Imperial Oil Resources Ltd., TDPA-P1, August 2004;
National Energy Board of Canada, "Application for Approval of the Development Plan for Niglintgak Field - Project Description," submitted by Shell Canada Ltd., NDPA-P1, August 2004; and
National Energy Board of Canada, "Application for Approval of the Development Plan for Parsons Lake Field - Project Description,"

enough to make them economic. One CTG facility is assumed capable of processing 6,040 tons of bituminous coal per day, with a production capacity of 0.1 Bcf per day of synthetic fuel and approximately 100 megawatts of capacity for electricity cogeneration sold to the grid.  A CTG facility of this size is assumed to cost nearly $1 billion in initial capital investment (2008 dollars).  CTG facilities are assumed to be built near existing coal mines.  All NGTDM regions are considered potential locations for CTG facilities except for New England.  Synthetic gas products from CTG facilities are assumed to be competitive when natural gas prices rise above the cost of CTG production (adjusted for credits from the sale of cogenerated electricity).  It is assumed that CTG facilities will not be built before 2012.

## *Natural Gas Imports and Exports*

U.S. natural gas trade with Mexico is determined endogenously based on various assumptions about the natural gas market in Mexico. U.S. natural gas exports from the United States to Canada are set exogenously in NEMS starting at 667 billion cubic feet per year in 2009 and increasing to 898 tcf by 2035. Canadian production and U.S. import flows from Canada are determined endogenously within the model.

Natural gas consumption levels, in Mexico are set exogenously based on projections from the *International Energy Outlook 2009* and are provided in Table 10.2, along with initially assumed production and LNG import levels in Mexico. Adjustments to production are made endogenously within the model to reflect a response to price fluctuations within the market.  Domestic production is assumed to be supplemented by LNG from receiving terminals constructed on both the east and west coasts of Mexico.  Maximum LNG import volumes are set exogenously and will be realized if endogenously deternmined LNG imports into North America are sufficient.  The difference between production plus LNG imports and consumption in any year is assumed to be either imported from, or exported to, United States.

**Table 10.2. Exogenously Specified Mexico Natural Gas Consumption and Supply**
   (billion cubic feet per year)

| | Consumption | Initial Dry Production | Maximum LNG Imports |
|---|---|---|---|
| 2010 | 2436 | 2250 | 201 |
| 2015 | 2824 | 2273 | 291 |
| 2020 | 3179 | 2393 | 331 |
| 2025 | 3562 | 2649 | 331 |
| 2030 | 3952 | 2972 | 331 |
| 2035 | 4363 | 3363 | 331 |

Source:  Consumption - EIA, International Energy Outlook 2009, DOE/EIA-0484(2009); Supply - Energy Information Administration, Office of Integrated Analysis and Forecasting.  LNG imports into Mexico, for consumption in the country, at the two existing facilities (in Altamira and Baja) are assumed to reach and maintain levels of about 120 Bef and 90 Bcf per year, respectively, throughout the forecast.  An additional facility is assumed to come on-line in 2012 in southwest Mexico and phase up to an import level of 120 Bcf per year as well.  These levels are based in part on Sener, "Prospectiva del Mercado de Gas Natural

Canadian natural gas production in Eastern Canada and consumption are set exogenously in the model and are shown in Table 10.3. Production in the Western Canadian Sedimentary Basin (WCSB) is calculated endogenously to the model using annual supply curves based on beginning-of-year proved reserves and an estimated production-to-reserve ratio.  Reserve additions are set equal to the product of successful natural gas wells  and a finding rate (both based on an econometric estimation).  The initial coalbed methane, shale gas, and conventional WCSB economically recoverable resource base estimates assumed in the model for the beginning of 2004 are 33 trillion cubic feet, 131 trillion cubic feet (starting in 2012), and 95.8 trillion cubic feet, respectively. [1] Potential production from tight formations was approximated by increasing the conventional resource level by 1.5 percent annually. Production from coalbed and shale sources is established based on an assumed production path which varies in response to the level of remaining resources and the solution price in the previous projection year. To approximate the impact of the average increase in the Alberta royalty rate, starting in 2009 the price drivers (i.e., the price realized by producers) for western Canada supply in the model were assumed to be 10 percent less than they would have been otherwise.

Annual U.S. exports of liquefied natural gas (LNG) to Japan are assumed to decrease  from 2008 levels of 50 billion cubic feet per year through March of 2011, when the export license expires, and cease thereafter. LNG imports to the United States are determined endogenously within the model.

For the most part, LNG imports are set endogenously in the model based on Atlantic/Pacific and peak/off-peak supply curves derived from model results generated by EIA's International Natural Gas Model (INGM).  Prices from the previous model iteration are used to establish the total level of North American imports in the peak or off-peak and in the Atlantic or Pacific. First, assumed LNG imports which are consumed in Mexico are subtracted (presuming the volumes are sufficient).  Then, the remaining levels are allocated to the model regions based on last year's import levels, the available regasification capacity, and the relative prices.  Regasification capacity is limited to facilities currently in existence and those already under construction and is fully sufficient to accommodate import levels projected by the model.

**Table 10.3.  Exogenously Specified Canada Natural Gas Production and Consumption**
   (billion cubic feet per year)

| Year | Consumption | Production Eastern Canada |
|------|-------------|--------------------------|
| 2010 | 3,740 | 240 |
| 2015 | 4,310 | 530 |
| 2020 | 4,680 | 670 |
| 2025 | 5,020 | 820 |
| 2030 | 5,280 | 710 |
| 2035 | 5,390 | 620 |

Source:  Consumption - EIA, International Energy Outlook 2009, DOE/EIA-0484(2009); Production - Energy Informatiion Administration, Office of Integrated Analysis and Forecasting.

# Legislation and Regulations

The methodology for setting reservation fees for transportation services is initially based on a regulated rate calculation, but is ultimately consistent with FERC's alternative ratemaking and capacity release position in that it allows some flexibility in the rates pipelines ultimately charge. The methodology is market-based in that rates for transportation services will respond positively to increased demand for services while rates will decline should the demand for services decline.

A number of legislative actions have been taken to provide a favorable environment for the introduction of new liquefied natural gas (LNG) regasification facilities in the United States.  In December 2002 under the Hackberry Decision, FERC terminated open access requirements for new onshore LNG terminals, placing them on an equal footing with offshore terminals regulated under provisions of the Maritime Security Act of 2002. The Maritime Security Act, signed into law in November 2002, also amended the Deepwater Port Act of 1974 to include offshore natural gas facilities, transferring jurisdiction for these facilities from the FERC to the Maritime Administration and the U.S. Coast Guard. The result should be to streamline the permitting process and relax regulator requirements. More recently an EPACT2005 provision clarified the role of the FERC as the final decision making body on issues concerning onshore LNG facilities.  While none of these legislative/regulatory actions is explicitly represented in the modeling framework, these provisions are indirectly reflected in selected model parameters.

Section 116 of the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2004 (H.R.4837) gives the Secretary of Energy the authority to issue Federal loan guarantees for an Alaska natural gas transportation project, including the Canadian portion, that would carry natural gas from northern Alaska, through the Canadian border south of 68 degrees north latitude, into Canada, and to the lower 48 States.  This authority would expire 2 years after the final certificate of public convenience and necessity is issued.  In aggregate the loan guarantee would not exceed: (1) 80 percent of total capital costs (including interest during construction); (2) $18 billion dollars (indexed for inflation at the time of enactment); or (3) a term of 30 years. The Act also promotes streamlined permitting and environmental review, an expedited court review process, and protection of rights-of-way for the pipeline. The assumed costs of borrowing money for the pipeline was reduced to reflect the decreased risk as a result of the loan guarantee.

Section 706 of the American Jobs Creation Act of 2004 (H.R.4520) provided a 7-year cost-of-investment recovery period for the Alaska natural gas pipeline, as opposed to the previously  allowed 15-year recovery period, for tax purposes.  The provision is effective for property placed in service after 2013 (or treated as such) and is assumed to have minimal impact on the decision to build the pipeline.

Section 707 of the American Jobs Creation Act extended the 15-percent tax credit previously applied to costs related to enhanced oil recovery to construction costs for a gas treatment plant that supplies natural gas to a 2 trillion Btu per day pipeline, lies in Northern Alaska, and produces carbon dioxide for injection into hydrocarbon-bearing geological formations. A gas treatment plan on the North Slope that feeds gas into an Alaska pipeline to Canada is expected to satisfy this requirement. The provision is effective for costs incurred after 2004. The impact of this tax credit is assumed to be factored into the cost estimates filed by the participating companies.

In 2005, Section 1113 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) raised the federal motor fuels tax for compressed natural gas vehicles (CNG) from 48.54 cents per Mcf to 18.3 cents per gasoline gallon equivalent (or about $1.46 per Mcf), all in nominal dollars. The same section also allows for a motor fuels excise tax credit of $0.50 per gasoline gallon equivalent to the seller through September 30, 2009. The tax rate assumed in the model was changed accordingly and assumed constant in nominal terms throughout the projection.

Section 312 of the Energy Policy Act of 2005 authorizes the Federal Energy Regulatory Commission (FERC) to allow natural gas storage facilities to charge market-based rates if it was believed that they would not exert market power. Storage rates are allowed to vary in the model from regulation-based rates, depending on market conditions.

# Natural Gas Transmission and Distribution Alternative Cases

## High Liquefied Natural Gas Import Case

Reference case assumptions regarding LNG imports to the North America reflect expectations of increasing global demand and non-competitive domestic natural gas prices relative to higher world LNG prices.

In the high LNG supply case, LNG imports to North America are exogenously projected to increase over reference case levels to determine the potential impact of additional LNG imports on the U.S. natural gas market. LNG imports are set by multiplying the reference case import levels by a factor which starts at 1.0, increases linearly between 2010 and 2035, and results in an LNG import level 5 times the reference case level by 2035.

# Notes and Sources

[1] Coalbed and shale gas based on ICF International, "Availability, Economics, and Production Potential of North American Unconventional Natural Gas Supplies," prepared for INGAA Foundation, Inc., November 2008, p. 51. Conventional WCSB from National Energy Board, "Canada's Conventional Natural Gas Resources, A Status Report," April 2004, p.4.

# Petroleum Market Module

The NEMS Petroleum Market Module (PMM) projects petroleum product prices and sources of supply for meeting petroleum product demand. The sources of supply include crude oil (both domestic and imported), petroleum product imports, unfinished oil imports, other refinery inputs (including alcohols, ethers, bioesters, corn, biomass, and coal), natural gas plant liquids production, and refinery processing gain. In addition, the PMM projects capacity expansion and fuel consumption at domestic refineries.

The PMM contains a linear programming (LP) representation of U.S. refining activities in the five Petroleum Area Defense Districts (PADDs) (Figure 9), linked to a simplified world refining industry representation used to model U.S. crude and product imports. The U.S. segment of the LP model is created by aggregating individual U.S. refineries within a PADD into two types of representative refineries, and linking all five PADD's and world refining regions via crude and product transit links. This representation provides the marginal costs of production for a number of conventional and new petroleum products. In order to interact with other NEMS modules with different regional representations, certain PMM inputs and outputs are converted from PADD regions to other regional structures and vice versa. The linear programming results are used to determine end-use product prices for each Census Division (shown in Figure 5) using the assumptions and methods described below.

**Figure 9. Petroleum Administration for Defense Districts**
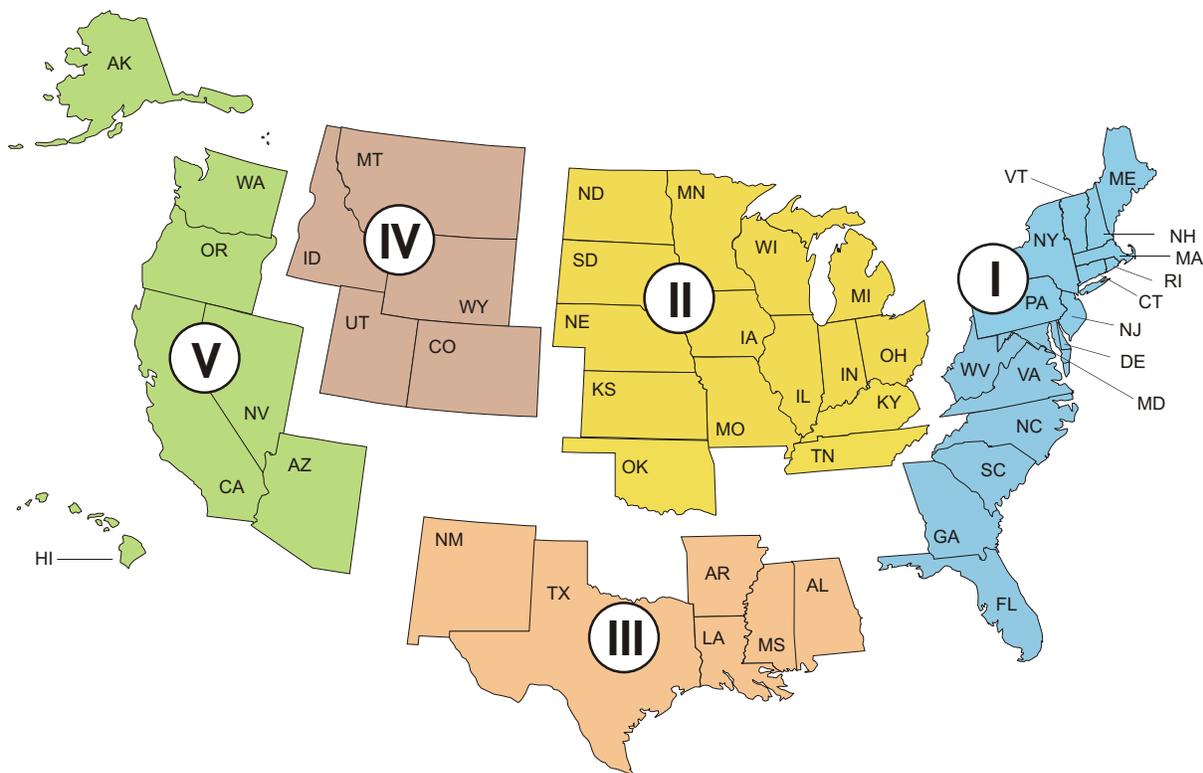


Source:Energy Information Administration,Office of Integrated Analysis and Forecasting.

# Key Assumptions

## Product Types and Specifications

The PMM models refinery production of the products shown in Table 11.1.

The costs of producing different formulations of gasoline and diesel fuel that are required by State and Federal regulations are determined within the linear programming representation of refineries by incorporating the specifications and demands for these fuels. The PMM assumes that the specifications for these fuels will remain the same as currently specified, with a few exceptions: the sulfur content, which will be phased down to reflect EPA regulations for all gasoline and diesel fuels; and, benzene content, which will be reduced in gasoline beginning in 2011.

**Table 11.1. Petroleum Product Categories**

| Product Category | |
|---|---|
| Motor Gasoline | Conventional Unleaded, Oxygenated, Reformulated |
| Jet Fuel | Kerosene-type |
| Distillates | Kerosene, Heating Oil, Low-Sulfur-Diesel, Ultra-Low-Sulfur-Diesel |
| Residual Fuels | Low Sulfur, High Sulfur |
| Liquefied Petroleum Gases | Propane, Liquefied Petroleum Gases Mixed |
| Petrochemical Feedstocks | Petrochemical Naptha, Petrochemical Gas Oil, Propylene, Aromatics |
| Others | Lubricating Products and Waxes, Asphalt/Road Oil, Still Gas Petroleum Coke, Special Naphthas, Aviation Gasoline |

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting.

## Motor Gasoline Specifications and Market Shares

The PMM models the production and distribution of three different types of gasoline: conventional, oxygenated, and reformulated (Phase 2). The following specifications are included in the PMM to differentiate between conventional and reformulated gasoline blends (Table 11.2): Reid vapor pressure (RVP), benzene content, aromatic content, sulfur content, olefins content, and the percent evaporated at 200 and 300 degrees Fahrenheit (E200 and E300). The sulfur content specification for gasoline has been reduced annually through 2007 to reflect recent regulations requiring the average annual sulfur content of all gasoline used in the United States to be phased-down to 30 parts per million (ppm) between 2004 and 2007. [1]

Conventional gasoline must comply with antidumping requirements aimed at preventing the quality of conventional gasoline from eroding as the reformulated gasoline program is implemented. Conventional gasoline must meet the Complex Model II compliance standards which cannot exceed average 1990 levels of toxic and nitrogen oxide emissions. [2]

Oxygenated gasoline is assumed to have specifications identical to conventional gasoline, with the exception of a higher oxygen requirement, specifically 2.7 percent oxygen by weight. For the sake of simplicity, it is assumed national blends of 10% ethanol are sufficient to meet these requirements.

Cellulosic biomass feedstock supplies and costs are taken from the NEMS Renewable Fuels Model. Initial capital costs for biomass cellulosic ethanol were obtained from a research project reviewing cost estimates from multiple sources. [3] Operating costs and credits for excess electricity generated at biomass ethanol plants were obtained from a survey of recent literature [4] and the USDA Agricultural Baseline Projections to 2019. [5]

**Table 11.2. Year Round Gasoline Specifications by Petroleum Administration for Defense Districts (PADD)**

| PADD | Reid Vapor Pressure (Max PSI) | Aromatics Volume Percent (Max) | Benzene Volume Percent (Max) | 2007 Sulfur PPM (Max) | Olefin Volume Percent (Max) | Percent Evaporated at 200° | Percent Evaluated at 300° |
|---|---|---|---|---|---|---|---|
| **Conventional** | | | | | | | |
| PADD I | 9.6 | 26.0 | 1.1 | 30.0 | 11.6 | 47.1 | 82.0 |
| PADD II | 10.2 | 26.1 | 1.1 | 30.0 | 11.6 | 47.1 | 81.9 |
| PADD III | 9.9 | 26.1 | 1.1 | 30.0 | 11.6 | 47.1 | 81.9 |
| PADD IV | 10.8 | 26.1 | 1.1 | 30.0 | 11.6 | 47.1 | 81.9 |
| PADD V | 9.2 | 26.7 | 1.1 | 30.0 | 11.7 | 45.7 | 81.4 |
| **Reformulated** | | | | | | | |
| PADD I | 8.5 | 20.7 | 0.6 | 30.0 | 11.9 | 50.2 | 84.6 |
| PADD II | 9.5 | 18.5 | 0.8 | 30.0 | 7.1 | 50.8 | 85.2 |
| PADD III | 8.6 | 19.8 | 0.6 | 30.0 | 11.2 | 51.6 | 83.9 |
| PADD IV | 8.6 | 19.8 | 0.6 | 30.0 | 11.2 | 51.6 | 83.9 |
| PADD V | | | | | | | |
| Nonattainment | 7.9 | 22.0 | 0.70 | 20.0 | 6.0 | 49.0 | 90.0 |
| CARB (attainment) | 7.9 | 22.0 | 0.70 | 20.0 | 6.0 | 49.0 | 90.0 |

Max = Maximum.

PADD = Petroleum Administration for Defense District.

PPM = Parts per Million by Weight.

PSI = Pounds per Square Inch.

Volume percent will change to 0.6 in 2011to meet the MSAT2 ruling.

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting. Derived using U.S. EPA's Complex Model, and updated with U.S. EPA's gasoline projection survey "Fuel Trends Report: Gasoline 1995-2005", January 2008, EPA420-R-08-002. (http://www.epa.gov/otaq/regs/fuels/rfg/properf/rfgperf.htm).

Corn supply prices are estimated from the USDA baseline projections to 2019.[6] The capital cost of a 50-million-gallon-per-year corn ethanol plant was assumed to be $84 million (20087 $). Operating costs of corn ethanol plants are obtained from USDA survey of ethanol plant costs [7]. Energy requirements are obtained from a study of carbon dioxide emissions associated with ethanol production. [8]

Reformulated gasoline has been required in many areas in the United States since January 1995. In 1998, the EPA began certifying reformulated gasoline using the "Complex Model," which allows refiners to specify reformulated gasoline based on emissions reductions from their companies' respective 1990 baselines or the EPA's 1990 baseline. The PMM reflects "Phase 2" reformulated gasoline requirements which began in 2000. The PMM uses a set of specifications that meet the "Complex Model" requirements, but it does not attempt to determine the optimal specifications that meet the "Complex Model." (Table 11.3).

**Table 11.3. Market Share for Gasoline Types by Census Division**

| Gasoline Type/Year | New England | Middle Atlantic | East North Central | West North Central | South Atlantic | East South Central | West South Central | Mountain | Pacific |
|---|---|---|---|---|---|---|---|---|---|
| Conventional Gasoline | 19 | 41 | 81 | 87 | 81 | 95 | 73 | 87 | 25 |
| Reformulated Gasoline | 82 | 59 | 19 | 13 | 19 | 5 | 27 | 13 | 75 |

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting. Derived from EIA-782C, "Monthly Report of Prime Supplier Sales of Petroleum Products Sold for Local Consumption," January-December 2007.

As of January 2007, Oxygenated Gasoline is included within Conventional Gasoline.

*AEO2010* assumes MTBE was phased out by the end of 2007 as a result of decisions made by the petroleum industry to discontinue MTBE blending with gasoline. Ethanol is assumed to be used in areas where reformulated or oxygenated gasoline is required. Federal reformulated gasoline (RFG) is blended with 10% ethanol; oxygenated gasoline is blended with 10% ethanol; and California Air Resources Board (CARB) RFG is blended with up to 10% ethanol. Ethanol is also allowed to blend into conventional gasoline at up to 10 percent by volume, depending on its blending value and relative cost competitiveness with other gasoline blending components. EISA2007 defines a requirements schedule for having renewable fuels blended into transportation fuels by 2022.

Reid Vapor Pressure (RVP) limitations are effective during summer months, which are defined differently by consuming regions. In addition, different RVP specifications apply within each refining region, or PADD. The PMM assumes that these variations in RVP are captured in the annual average specifications, which are based on summertime RVP limits, wintertime estimates, and seasonal weights.

Within the PMM, total gasoline demand is disaggregated into demand for conventional, and reformulated gasoline by applying assumptions about the annual market shares for each type. In *AEO2010* the annual market shares for each region reflect actual 2007 market shares and are held constant throughout the projection. (See Table 11.3 for *AEO2010* market share assumptions.)

## *Diesel Fuel Specifications and Market Shares*

In order to account for ultra-low-sulfur diesel regulations related to Clean Air Act Amendment of 1990 (CAAA90), low-sulfur diesel is differentiated from other distillates. In NEMS, the Pacific Region (Census Division 9) is required to meet CARB standards. Both Federal and CARB standards currently limit sulfur to 15 ppm.

*AEO2010* incorporates the "ultra-low-sulfur diesel" (ULSD) regulation finalized in December 2000. ULSD is highway diesel that contains no more than 15 ppm sulfur at the pump. The ULSD regulation includes a phase-in period under the "80/20" rule, that requires the production of a minimum 80 percent ULSD for highway use between June 2006 and June 2010, and a 100 percent requirement for ULSD thereafter. As NEMS produces annual average results, only a portion of the production of highway diesel in 2006 is subject to the 80/20 rule and the 100 percent requirement does not cover all highway diesel until 2011.

NEMS models ULSD as containing 7.5 ppm sulfur at the refinery gate in 2006, phasing down to 7ppm sulfur by 2011. This lower sulfur limit at the refinery reflects the general consensus that refiners will need to produce diesel with a sulfur content below 10 ppm to allow for contamination during the distribution process.

It is assumed that revamping (retrofitting) existing refinery units to produce ULSD will be undertaken by refineries representing two-thirds of highway diesel production and that the remaining refineries will build new units. The capital cost of revamping is assumed to be 50 percent of the cost of adding a new unit.

The amount of ULSD downgraded to a lower value product because of sulfur contamination in the distribution system is assumed to be 7.8 percent at the start of the program, declining to 2.2 percent at full implementation. The decline reflects the expectation that the distribution system will become more efficient at handling ULSD with experience.

A revenue loss is assumed to occur when a portion of ULSD that is put into the distribution system is contaminated and must be sold as a lower value product. The amount of the revenue loss is estimated offline based on earlier NEMS results and is included in the *AEO2010* ULSD price projections as a distribution cost. The revenue loss associated with the 7.8 percent downgrade assumption for 2009 is 0.7 cents per gallon. The revenue loss estimate declines to 0.2 cents per gallon after 2010 to reflect the assumed decline to 2.2 percent.

The capital and operating costs associated with ULSD distribution are based on assumptions used by the EPA in the Regulatory Impact Analysis (RIA) of the rule. [9] Capital costs of 0.7 cents per gallon are assumed for additional storage tanks needed to handle ULSD during the transition period. These capital expenditures are assumed to be fully amortized by 2011. Additional operating costs for distribution of highway diesel of 0.2 cents per gallon are assumed over the entire projection period. Another 0.2 cent cost per gallon is assumed for lubricity additives. Lubricity additives are needed to compensate for the reduction of aromatics and high-molecular-weight hydrocarbons stripped away by the severe hydrotreating used in the desulphurization process.

Demand for highway-grade diesel, both 500 ppm and ULSD combined, is assumed to be equivalent to the total transportation distillate demand. Historically, highway-grade diesel supplies have nearly matched total transportation distillate sales, although some highway-grade diesel has gone to nontransportation uses such as construction and agriculture.

The energy content of ULSD is assumed to decline from that of 500 ppm diesel by 0.5 percent because undercutting and severe desulphurization will result in a lighter stream composition than that for 500 ppm diesel.

AEO2010 incorporates the "nonroad, locomotive, and marine" (NRLM) diesel regulation finalized in May 2004. The PMM model has been revised to reflect the nonroad rule and re-calibrated for market shares of highway, NRLM diesel, and other distillate (mostly heating oil, but excluding jet fuel and kerosene). The NRLM diesel rule follows the highway diesel rule closely and represents an incremental tightening of the entire diesel pool. The demand for high sulfur distillate is expected to diminish over time, while the demand for ULSD (both highway and NRLM) is expected to increase over time.

The final NRLM rule is implemented in multiple steps and requires sulfur content for all NRLM diesel fuel produced by refiners to be reduced to 500 ppm starting mid-2007. It also establishes a new ultra-low-sulfur diesel (ULSD) limit of 15 ppm for nonroad diesel by mid-2010. For locomotive and marine diesel, the rule establishes an ULSD limit of 15 ppm in mid-2012.

## End-Use Product Prices

End-use petroleum product prices are based on marginal costs of production plus production-related fixed costs plus distribution costs and taxes. The marginal costs of production are determined within the LP and represent variable costs of production, including additional costs for meeting reformulated fuels provisions of the CAAA90. Environmental costs associated with controlling pollution at refineries are implicitly assumed in the annual update of the refinery investment costs for the processing units.

The costs of distributing and marketing petroleum products are represented by adding product-specific distribution costs to the marginal refinery production costs (product wholesale prices). The distribution costs are derived from a set of base distribution markups (Table 11.4).

State and Federal taxes are also added to transportation fuels to determine final end-use prices (Tables 11.5 and 11.6). Recent tax trend analysis indicates that State taxes increase at the rate of inflation, therefore, State taxes are held constant in real terms throughout the projection. This assumption is extended to local taxes which are assumed to average 2 cents per gallon. [10] Federal taxes are assumed to remain at current levels in accordance with the overall AEO2010 assumption of current laws and regulations. Federal taxes are deflated to constant 2007$ as follows:

Federal Tax $_{product, year}$ = Current Federal Tax $_{product}$ / GDP Deflator $_{year}$

## Crude Oil Quality

In the PMM, the quality of crude oil is characterized by average gravity and sulfur levels. Both domestic and imported crude oil are divided into five categories as defined by the ranges of gravity and sulfur shown in Table 11.7.

**Table 11.4. Petroleum Product End-Use Markups by Sector and Census Division**

(2008 dollars per gallon)

| Sector/Product | Census Division | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | New England | Middle Atlantic | East North Central | West North Central | South Atlantic | East South Central | West South Central | Mountain | Pacific |
| **Residential Sector** | | | | | | | | | |
| Distillate Fuel Oil | 0.60 | 0.71 | 0.35 | 0.27 | 0.52 | 0.35 | 0.53 | 0.25 | 0.43 |
| Kerosene | 0.51 | 0.53 | 0.48 | 0.48 | 0.52 | 0.58 | 0.54 | 1.15 | 0.55 |
| Liquefied Petroleum Gases | 3.80 | 3.83 | 2.33 | 1.61 | 3.75 | 3.34 | 3.27 | 2.75 | 3.59 |
| **Commercial Sector** | | | | | | | | | |
| Distillate Fuel Oil | 0.30 | 0.24 | 0.13 | 0.07 | 0.06 | 0.07 | 0.07 | -0.05 | 0.11 |
| Gasoline | 0.27 | 0.30 | 0.24 | 0.20 | 0.20 | 0.24 | 0.25 | 0.24 | 0.28 |
| Kerosene | 0.49 | 0.48 | 0.48 | 0.46 | 0.51 | 0.55 | 0.46 | 1.11 | 0.55 |
| Liquefied Petroleum Gases | 1.74 | 2.24 | 1.92 | 1.91 | 2.12 | 2.03 | 2.12 | 2.33 | 2.07 |
| Low-Sulfur Residual Fuel Oil | 0.53 | 0.01 | 1.22 | 1.23 | 0.01 | 1.33 | 0.00 | 0.83 | 1.46 |
| **Utility Sector** | | | | | | | | | |
| Distillate Fuel Oil | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Residual Fuel Oil[1] | -0.12 | -0.14 | 0.90 | 1.38 | -0.07 | 0.09 | 1.51 | 1.46 | 1.74 |
| **Transportation Sector** | | | | | | | | | |
| Distillate Fuel Oil | 0.61 | 0.54 | 0.43 | 0.39 | 0.42 | 0.43 | 0.43 | 0.41 | 0.48 |
| E85[2] | 0.47 | 0.59 | 0.42 | 0.38 | 0.44 | 0.43 | 0.43 | 0.42 | 0.46 |
| Gasoline | 0.33 | 0.41 | 0.30 | 0.26 | 0.31 | 0.30 | 0.30 | 0.30 | 0.32 |
| High-Sulfur Residual Fuel Oil[1] | 0.12 | -0.11 | 0.44 | 0.47 | 0.17 | 0.25 | 0.18 | 0.48 | -0.06 |
| Jet Fuel | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Liquefied Petroleum Gases | 1.28 | 1.93 | 2.63 | 2.63 | 2.22 | 2.60 | 2.49 | 2.23 | 2.21 |
| **Industrial Sector** | | | | | | | | | |
| Asphalt and Road Oil | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Distillate Fuel Oil | 0.30 | 0.27 | 0.24 | 0.18 | 0.15 | 0.17 | 0.16 | 0.06 | 0.14 |
| Gasoline | 0.27 | 0.33 | 0.24 | 0.19 | 0.25 | 0.25 | 0.25 | 0.25 | 0.26 |
| Kerosene | 0.00 | 0.01 | 0.00 | 0.01 | 0.01 | 0.06 | 0.16 | 0.56 | 0.00 |
| Liquefied Petroleum Gases | 1.92 | 2.14 | 1.72 | 1.71 | 1.90 | 1.47 | 0.60 | 2.38 | 2.08 |
| Low-Sulfur Residual Fuel Oil | 0.30 | 0.00 | 0.50 | 0.65 | 0.08 | 0.71 | 0.78 | -0.22 | 0.93 |

[1]Negative values indicate that average end-use sales prices were less than wholesale prices.  This often occurs with residual fuel which is produced as a byproduct when crude oil is refined to make higher value products like gasoline and heating oil.

[2]74 percent ethanol and 26 percent gasoline.

Sources:  Markups based on data from Energy Information Administration (EIA), Form EIA-782A, *Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report*; EIA, Form EIA-782B, *Resellers'/Retailers' Monthly Petroleum Report Product Sales Report*; EIA, Form FERC-423, *Monthly Report of Cost and Quality of Fuels for Electric Plants*; EIA, Form EIA-759 *Monthly Power Plant Report; EIA, State Energy Data Report 2007, Consumption* (August 2009); *EIA, State Energy Data 2007: Prices and Expenditures*  (August 2009).

**Table 11.5. State and Local Taxes on Petroleum Transportation Fuels by Census Division, as of July 2008**
(2008 dollars per gallon)

| Year/Product | New England | Middle Atlantic | East North Central | West North Central | South Atlantic | East South Central | West South Central | Mountain | Pacific |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Census Division | | | | | |
| Gasoline[1] | 0.29 | 0.25 | 0.24 | 0.21 | 0.18 | 0.20 | 0.20 | 0.21 | 0.21 |
| Diesel | 0.25 | 0.29 | 0.22 | 0.21 | 0.21 | 0.18 | 0.19 | 0.24 | 0.21 |
| Liquefied Petroleum Gases | 0.13 | 0.13 | 0.18 | 0.20 | 0.19 | 0.18 | 0.14 | 0.15 | 0.06 |
| E85[2] | 0.26 | 0.27 | 0.26 | 0.22 | 0.19 | 0.20 | 0.22 | 0.24 | 0.24 |
| Jet Fuel | 0.07 | 0.05 | 0.00 | 0.03 | 0.05 | 0.06 | 0.03 | 0.04 | 0.03 |

[1]Tax also applies to gasoline consumed in the commercial and industrial sectors.

[2]74 percent ethanol and 26 percent gasoline.

Source: "Compilation of United States Fuel Taxes, Inspection, Fees and Environmental Taxes and Fees," Defense Energy Support Center, Editions 2009-09, July 9, 2009

**Table 11.6  Federal Taxes, as of 2008**
(Nominal dollars per gallon)

| Product | Tax |
|---|---|
| Gasoline | 0.18 |
| Diesel | 0.24 |
| Jet Fuel | 0.04 |
| Liquefied Petroleum Gases[3] | 0.183 |
| M85[1] | 0.09 |
| E85[2] | 0.20 |

[1]85 percent methanol and 15 percent gasoline.

[2]74 percent ethanol and 26 percent gasoline.

[3]2010 data-based on EPACT05: excise tax is 4.3 cents/gal after 9-30-2011 and 18.3 cents/gal prior to that.  A credit of 50 cents/gal is also applied between 10-1-06 and 9-30-09.

Sources:  Omnibus Budget Reconciliation Act of 1993 (H.R. 2264); Tax Payer Relief Act of 1997 (PL 105-34), Clean Fuels Report (Washington, DC, April 1998) and Energy Policy Act of 2005 (PL 109-58). IRS Internal Revenue Bulletin 2006-43 available on the web at http://www.irs.gov/pub/irs-irbs/irb06-43.pdf

**Table 11.7. Crude Oil Specifications**

| Crude Oil Categories | Sulfur (percent) | Gravity (degrees API) |
|---|---|---|
| Low Sulfur Light | 0 - 0.5 | 25 - 60 |
| Medium Sulfur Heavy | 0.35 - 1.1 | 26 - 40 |
| High Sulfur Light | > 1.1 | >32 |
| High Sulfur Heavy | > 1.1 | 24 - 33 |
| High Sulfur Very Heavy | > 0.9 | < 23 |

Source:  Energy Information Administration, Office of Integrated Analysis and Forecasting.  Derived from EI-810, "Monthly Refinery Report" data.

A "composite" crude oil with the appropriate yields and qualities is developed for each category by averaging the characteristics of specific crude oil streams in the category. While the domestic and foreign categories are the same, the composite crudes for each category may differ because different crude streams make up the composites. For domestic crude oil, estimates of total regional production are made first, then shared out to each of the five categories based on historical data. For imported crude oil, a separate supply curve is provided for each of the five categories. Each import supply curve is linked to a world oil supply market balance for that crude type, such that the quantity of crude oil imported depends on the economic competition with use by the rest of the world.

## Capacity Expansion

PMM allows for capacity expansion of all processing unit types including distillation, vacuum distillation, hydrotreating, coking, fluid catalytic cracking, hydrocracking, and alkylation. Capacity expansion occurs by processing unit, starting from base year capacities established by PADD using historical data.

Expansion occurs in NEMS when the value received from the additional product sales exceeds the investment and operating costs of the new unit. The investment costs assume a financing ratio of 60 percent equity and 40 percent debt, with a hurdle rate and an after-tax return on investment of about 9 percent. Capacity expansion plans are determined every 3 years. For example, the PMM looks ahead in 2008 and determines the optimal capacities given the estimated demands and prices expected in the 2011 projection year. The PMM then allows any of that capacity to be built in each of the projection years 2009, 2010, and 2011. At the end of 2011 the cycle begins anew, looking ahead to 2014. ACU capacity under construction that is expected to begin operating during by 2010 is added to existing capacities in their respective start year. Capacity expansion is also modeled for corn and cellulosic ethanol, coal-to-liquids, gas-to-liquids, and biomass-to-liquids production.

## Alternative Fuel Technology Characteristics

The PMM explicitly models a number of liquid fuels technologies that do not require petroleum feedstocks. These technologies produce both fuel grade products for blending with traditional petroleum products as well as alternative feedstocks for the traditional petroleum refinery (Table 11.8).

Estimates of capital costs, operating cost, and process yield for these technologies are shown in Table 11.9. Costs are defined for 2007 and are escalated in the PMM using the GDP deflator. Owner's Capital Cost is defined as the anticipated cost for a fully continuous, commercial scale plant. However, some of the technologies have not yet been proven at a commercial scale. As a result, a technology optimism factor is applied to the owner's capital cost for the first plant of those technologies. For the next four plants, the capital cost decreases linearly such that the fifth plant is built at the owner's capital cost defined in the table. Following this phase, capital cost is decreased at a rate corresponding to the maturity of the components that make up the technology, reflecting the principle of learning by doing.This principle is implemented in the PMM in the same way as it is in the Electricity Market Module. Model parameters are shown in Table 11.10.

**Table 11.8  Alternative Fuel Technology Product Type**

| Technology | Product Type |
|---|---|
| Biochemical | |
| Corn Ethanol | Fuel Grade |
| Barley Ethanol | Fuel Grade |
| Cellulosic Ethanol | Fuel Grade |
| Thermocatalytic | |
| Bioimass Fisher-Tropsch | Fuel Grade/Refinery Feed |
| Pyrolysis Oil | Refinery Feed |
| Methyl Ester Biodiesel | Fuel Grade |
| Renewable Diesel | Fuel Grade |
| Coal/Biomass to Liquids (CBTL) | Fuel Grade/Refinery Feed |
| Natural Gas to Liquids (GTL) | Fuel Grade/Refinery Feed |
| Coal to Liquids (CTL) | Fuel Grade/Refinery Feed |

Source:  Energy Information Administration, Office of Integrated Analysis and Forecasting.

**Table 11.9. Alternative Fuel Technology Characteristics**

| | Annual Plant Capacity[1] | Base Overnight Cost | Contingency Factors[2,3] | | Total Overnight Cost[4] | Variable Operating Cost[5] | Fixed O&M Cost[6] | Process Yield[7] | |
|---|---|---|---|---|---|---|---|---|---|
| | bbl/day | 2008 $/bbl-day | Project Contingency | Technology Optimism | 2008 $/bbl day | 2008 $/bbl | 2008 $/bbl-day | Mass | Energy |
| Biochemical | | | | | | | | | |
| Corn Ethanol | 6,523 | $24,586 | 5% | 0% | $25,815 | $48.09 | - | 32% | 54% |
| Barley Ethanol | 4,240 | $27,045 | 5% | 0% | $28,397 | $57.56 | - | 30% | 49% |
| Cellulosic Ethanol (1st plant) | 3,260 | $97,879 | 5% | 25% | $128,466 | $41.81 | | 25% | 34% |
| Cellulosic Ethanol (50th plant) | 3,260 | $97,879 | 5% | 0% | $74,627 | $41.81 | $103 | 25% | 34% |
| Thermocatalytic | | | | | | | | | |
| Biomass Fischer-Tropsch (1st plant) | 3,143 | $176,239 | 10% | 25% | $247,919 | $14.21 | $8,435 | 20% | 47% |
| Biomass Fischer-Tropsch (50th plant) | 3,143 | $176,239 | 10% | 0% | $168,482 | $14.21 | $8,435 | 20% | 47% |
| Pyrolysis Oil (1st plant) | 687 | $64,406 | 10% | 25% | $96,141 | $24.40 | $7,514 | 27% | 52% |
| Pyrolysis Oil (50th plant) | 687 | $64,406 | 10% | 0% | $39,110 | $24.40 | $7,514 | 27% | 52% |
| Methyl Ester Biodiesel | 1,305 | $21,306 | 5% | 0% | $22,371 | $132.67 | - | 19% | 36% |
| Renewable Diesel | 2,000 | $10,593 | 5% | 0% | $11,848 | $126.76 | $542 | 19% | 39% |
| Coal/Biomass To Liquids | 50,000 | $76,662 | 10% | 2.5% | $94,778 | $14.24 | $9,861 | 27% | 44% |
| Natural Gas To Liquids | 34,000 | $45,455 | 10% | 0% | $50,000 | $5.28 | - | - | 57% |
| Coal to Liquids | 50,000 | $76,662 | 10% | 0% | $92,466 | $13.46 | $9,861 | 30% | 45% |

[1] For all processes except corn ethanol and FAME biodiesel, annual capacity refers to the capacity of one plant as defined in the Petroleum Market Module of NEMS. For corn ethanol and FAME biodiesel, annual capacity is the most common plant size as of 2008.

[2] Contingency is defined by the Amercian Association of Cost Engineers as a "specific provision for unforeseeable elements in costs within a defined project scope; particularly important where previous experience has shown that unforeseeable events which will increase costs are likely to occur."

[3] The technology optimism factor is applied to the first four units of an unproven design, reflecting a demonstrated tendency to underestimate costs for a first-of-a-kind unit.

[4] Total overnight cost including contingency factors, excluding regional multipliers, learning effects, and interest charges.

[5] Variable Operating and Maintenance costs (O&M) include sales of electricity to the gird and coproduct value where applicable.

[6] For Corn Ethanol, Advanced Ethanol, Natural Gas to Liquids and Biodiesel, fixed costs are included in Variable Operating Cost.

[7] A soybean oil mass yield of 20% is assumed in the crush facility in order to compute yield.

Sources: The values shown in this table are developed by the Energy Information Administration, Office of Integrated Analysis and Forecasting, from analysis of reports and discussions with various sources from industry, government, and the Department of Energy Fuel Offices and National Laboratories. They are meant to represent the cost and performance of typical plants under normal oprating conditions for each technology. Key sources reviewed are listed in "Notes and Sources' at the end of the chapter.

Variable operating cost includes the cost of feedstock, utility requirements, coproduct credit, and other costs that depend on the technology and they represent the expected costs to operate a fully continuous, commercial scale plant for each technology. The breakdown is shown in Table 11.11.

## *Alternative Fuels Market Dynamics*

In the PMM, overnight capital costs are annualized and then added to variable and fixed costs in order to provide a cost of production. [11] As a result of this inclusion of capital cost in the cost of production, a given technology's production cost has the potential to become more or less attractive relative to other technologies as plants are built.

While cost of production defines a basis for comparison, market competition is often defined by the required feedstock. For example, technologies requiring vegetable oils (biodiesel and renewable diesel) compete with each other for that feedstock, limiting the overall market share of each technology. As a consequence of this and the Renewable Fuels Standard, cellulosic ethanol and Biomass to Liquids (BTL) technologies, which include Fischer-Tropsch and Pyrolysis, compete directly with each other. By contrast, technologies like Gas to Liquids and Coal to Liquids compete more directly with petroleum fuels, since their feedstocks are

**Table 11.10. Alternative Fuel Technology Learning Parameters**

| | Plants Built | 1st of a Kind | 5th of a Kind | | 32nd of a kind | |
|---|---|---|---|---|---|---|
| | Mature | 0% | 33% | 67% | 0% | 100% |
| Cellulosic Ethanol | Decline Factor (b) | 0.079 | 0.415 | 0.014 | 0.152 | 0.072 |
| | Cumulative Capacity (a) | 1.25 | 0.708 | 0.754 | 0.285 | 0.75 |
| Biomass Fischer-Trospch | Plant % | 0% | 0% | 100% | 0% | 100% |
| | Decline Factor (b) | 0.079 | 0.415% | 0.014 | 0.152 | 0.072 |
| | Cumulative Capacity (a) | 1.25 | 0.000 | 1.126 | 0.000 | 1.126 |
| Pyrolysis Oil | Plant % | 0% | 18% | 82% | 0% | 100% |
| | Declline Factor (b) | 0.079 | 0.415 | 0.014 | 0.152 | 0.072 |
| | Cumulative Capacity (a) | 1.25 | 0.386 | 0.923 | 0.155 | 0.923 |

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting.

**Table 11.11. Alternative Fuel Technology Variable Costs**

| Technology | Total Variable O&M ($/bbl) | Feedstock Cost ($/bbl)[1] | Overall Utility Cost ($/bbl)[2] | Coproduct Credit ($/bbl) | Other ($/bbl)[3] |
|---|---|---|---|---|---|
| Biochemical | | | | | |
| Corn Ethanol | $48.09 | $ 50.39 | $10.90 | $19.90 | $6.71 |
| Advanced Ethanol (Barley) | $57.56 | $ 63.97 | -$3.43 | $9.68 | $ 6.67 |
| Cellulosic Enzyme Hydrolysis | $41.83 | $ 17.46 | -$5.72 | $0.00 | $30.07 |
| Thermocatalytic | | | | | |
| Biomass Fischer-Tropsch | $14.21 | $ 20.42 | -$6.22 | $0.00 | $0.00 |
| Pyrolysis Oil | $24.40 | $ 18.71 | -$0.00 | $0.00 | $5.82 |
| Methyl Ester Biodiesel | $122.67 | $124.87 | -$1.58 | $0.00 | $6.20 |
| Renewable Diesel | $126.76 | $123.48 | -$0.10 | $0.00 | $3.18 |
| Coal/Biomass FT Liquids | $14.24 | $ 18,22 | -$5.80 | $0.00 | $1.81 |
| CoalTo Liquids | $13.46 | $ 17,45 | -$5.80 | $0.00 | $1.81 |

[1] Corn and Barley are assumed to cost $3.30/bushel.  Biomass is assumed to cost $32.09/ton.  Coal is assumed to cost $40/ton. Virgin oil is assumed to cost $3.00`/gallon.

[2] Sales of electricity to the Grid from cogeneration are included in overall utility costs.

[3] These costs are specific to each technology.  Often cooling water, catalyst, & chemicals are aplied here.

more similar to petroleum and their fuels are not required by the RFS. Renewable Diesel on the other hand, which refers to hydrodeoxygenation of vegetable oils and animal fats, often competes directly with petroleum fuels, despite its feedstock, since it is not eligible for the same tax credit as methyl ester biodiesel when co-processed with petroleum feeds

## *Biofuels Supply*

The PMM provides supply functions on an annual basis through 2035 for ethanol produced from both corn and cellulosic biomass to produce transportation fuel. It also assumes that small amounts of vegetable oil and animal fats are processed into biodiesel, a blend of methyl esters suitable for fueling diesel engines.

- Corn feedstock supplies and costs are provided exogenously to NEMS. Feedstock costs reflect credits for co-products (livestock feed, corn oil, etc.). Feedstock supplies and costs reflect the competition between corn and its co-products and alternative crops, such as soybeans and their co-products.

- Cellulosic (biomass) feedstock supply and costs are provided by the Renewable Fuels Module in NEMS.

- The Federal motor fuels excise tax credit for ethanol is 45 cents per gallon of ethanol (4.5 cents per gallon credit to gasohol at a 10-percent volumetric blending portion) is applied within the model. The tax credit is held constant in nominal terms, decreasing with inflation throughout the projection in constant dollar terms. It is assumed that the credit expires after 2010.

To model the Renewable Fuels Standard in EISA2007, several assumptions were required. In addition to using the text of the legislation it was also assumed that rules promulgated under the RFS in EPACT05 would govern the administration of the EISA2007 RFS.

- The penetration of cellulosic ethanol into the market is limited before 2012 to the likely projects currently expected to produce approximately 5 million gallons per year.

- Methyl ester biodiesel production contributes 1.5 credits towards the advanced mandate.

- Renewable Diesel and Fischer-Tropsch diesel contribute 1.7 credits toward the cellulosic mandate.

- Renewable gasoline and Fischer-Tropsch naphtha contribute 1.54 credits toward the cellulosic mandate.

- Pyrolysis Oil production contributes 1 credit toward the advanced mandate under RFS1 rules regarding biomass based crude oils.

- Imported Brazilian sugarcane ethanol counts towards the advanced renewable mandate. Supply curves for sugarcane ethanol imports allow for substantial penetration by 2022 (1.5 billion gallons) into the U.S. advanced fuel supply pool, after which sugarcane ethanol remains competitive due to its relatively low production cost, availability, and the assumed expiration of the 54 cents/gallon import tariff by Jan. 1, 2011. Ample sugarcane ethanol supply for export from Brazil is supported by outside forecasts [12]. In addition, cellulosic ethanol would be available for export to the U.S. (largely from bagasse feedstock) but this supply is limited in part due to competition with the growing use of sugarcane residue for electricity generation in Brazil.

- The cellulosic biofuel waiver, when activated, reduces the cellulosic, advanced, and total requirement by that amount in all future years. In years beyond 2022, the last year specified in the EISA, the RFS mandate levels are held constant.

- It is assumed that biodiesel and BTL diesel may be consumed in diesel engines without significant infrastructure modification (either vehicles or delivery infrastructure).

- Ethanol is assumed to be consumed as either E10 or E85, with no intermediate blends. The cost of placing E85 pumps at the most economic stations is spread over all transportation fuels. Using this

assumption, the E10 blending market is assumed to be saturated and the E85 market consumes additional ethanol after 2014.

- To accommodate the ethanol requirements in particular, transportation modes are expanded or upgraded for both E10 and E85, and it is assumed that most ethanol originates from the Midwest, with nominal  transportation costs ranging from a low of 1.7 cents per gallon for expanded distribution in the Midwest, to as high as 2.6 cents per gallon for the Southeast and West Coast.

- For E85 dispensing stations, it is assumed the average cost of a retrofit and new station is about $45,000 per station, which translates into an incremental cost per gallon ranging from 26 cents in 2013 to 3 cents by 2020, depending on the average sales per dispenser.

- The total projected incremental nominal infrastructure cost (transportation, distribution, dispensing) for E85  varies from 27 cents per gallon of E85 in 2013 to 5 cents per gallon in 2020.

Interregional transportation is assumed to be by rail, ship, barge, and truck, and the associated costs are included in PMM.  A subsidy is offered by the Department of Agriculture's Commodity Credit Corporation for the production of biodiesel.  In addition, the American Jobs Creation Act of 2004 provides an additional tax credit of $1 per gallon of soybean oil for biodiesel and 50 cents per gallon for yellow grease biodiesel until 2006, and EPACT05 extended the credit again to 2008. The Emergency Stabilization Act of 2008 extended it again to 2009 and increased the yellow grease credit to $1 per gallon.

## *Non-Biofuel Alternative Supply*

Gas-to-liquids (GTL) facilities convert natural gas into distillates, and are assumed to be built if the prices for lower sulfur distillates reach a high enough level to make it economic. In the PMM, gas-to-liquids facilities are assumed to be built only on the North Slope of Alaska, where the distillate product is transported on the Trans-Alaskan Pipeline System (TAPS) to Valdez and shipped to markets in the lower 48 States. The earliest start date for a GTL facility is set at 2017. Also, the source of feedstock gas to any GTL facility in Alaska is assumed to be from undiscovered, non-associated resources which will be more costly than the current, largely associated proved reserves on the North Slope, which are assumed to be dedicated to the pipeline.  The transportation cost to ship the GTL product from the North Slope to Valdez along the TAPS is assumed to be the price set to move oil (i.e. the TAPS revenue recovery rate).  This rate is a function of allowable costs, profit, and flow, and can change over the projection.

It is also assumed that coal-to-liquids (CTL) facilities will be built when low-sulfur distillate prices are high enough to make them economic. Additionally, a proces which allows co-firing of coal with biomass (CBTL) is explicitly modeled for producers who wish to receive RFS credit for a portion of their product.   A CTL facility of this size is assumed to cost  about $4.62 billion in initial capital investment (2008 dollars).  CTL facilities could be built near existing refineries. For the East Coast, potential CTL facilities could be built near the Delaware River basin; for the Central region, near the Illinois River basin or near Billings, Montana; and for the West Coast, in the vicinity of Puget Sound in Washington State.  It is assumed that CTL facilities can only be built after 2010.

Gasification of petroleum coke (petcoke) and heavy oil (asphalt, vacuum resid, etc.) is represented in *AEO2010*. The PMM assumes petcoke to be the primary feedstock for gasification, which in turn could be converted to either combined heat and power (CHP) or hydrogen production based on refinery economics. A typical gasification facility is assumed to have a capacity of 2,000 ton-per-day (TPD) which includes the main gasifier and other integrated units in the refinery such as air separation unit (ASU), syngas clean-up, sulfur recovery unit (SRU), and two downstream process options - CHP or hydrogen production.  Currently, there is more than 5,000 TPD gasification capacity in the U.S. that produces CHP and hydrogen.

## Combined Heat and Power (CHP)

Electricity consumption in the refinery is a function of the throughput of each unit. Sources of electricity consist of refinery power generation, utility purchases, refinery CHP, and merchant CHP. Power generators and CHP plants are modeled in the PMM linear program as separate units which are allowed to compete along with purchased electricity. Both the refinery and merchant CHP units provide estimates of capacity, fuel consumption, and electricity sales to the grid based on historical parameters.

Refinery sales to the grid are estimated using the following percentages which are based on 2005 data:

| Region | Percent Sold To Grid |
|---|---|
| PADD I | 67.0 |
| PADD II | 0.9 |
| PADD III | 2.2 |
| PADD IV | 0.9 |
| PADD V | 45.4 |

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting. Derived using EIA-860B, "Annual Electric Generators Report-Nonutility"

Merchant CHP plants are defined as non-refiner owned facilities located near refineries to provide energy to the open market and to the neighboring refinery. These sales occur at a price equal to the average wholesale price of electricity in each PMM region, which are obtained from the Electricity Market Model.

## Short-term Methodology

Petroleum balance and price information for 2009 and 2010 are projected at the U.S. level in the *Short-term Energy Outlook*, (*STEO*). The PMM adopts the *STEO* results for 2009 and 2010, using regional estimates derived from the national *STEO* projections.

# Legislation and Regulations

The Tax Payer Relief Act of 1997 reduced excise taxes on liquefied petroleum gases and methanol produced from natural gas. The reductions set taxes on these products equal to the Federal gasoline tax on a Btu basis.

Title II of CAAA90 established regulations for oxygenated and reformulated gasoline and reduced-sulfur (500 ppm) on-highway diesel fuel. These are explicitly modeled in the PMM. Reformulated gasoline represented in the PMM meets the requirements of phase 2 of the Complex Model, except in the Pacific region where it meets CARB 3 specifications.

*AEO2010* reflects "Tier 2" Motor Vehicle Emissions Standards and Gasoline Sulfur Control Requirements finalized by EPA in February 2000. This regulation requires that the average annual sulfur content of all gasoline used in the United States be phased-down to 30 ppm between the years 2004 and 2007. The 30 ppm annual average standard is not fully realized in conventional gasoline until 2008 due to allowances for small refineries.

AEO2010 reflects Heavy-Duty Engine and Vehicle Standards and Highway Diesel Fuel Sulfur Control Requirements finalized by the EPA in December 2000. Between June 2006 and June 2010, this regulation requires that 80 percent of highway diesel supplies contain no more than 15 ppm sulfur while the remaining 20 percent of highway diesel supplies contain no more than 500 ppm sulfur. After June 2010, all highway diesel is required to contain no more than 15 ppm sulfur at the pump.

*AEO2010* reflects nonroad locomotive and marine (NRLM) diesel requirements finalized by the EPA in May 2004. Between June 2007 and June 2010, this regulation requires that nonroad diesel supplies contain no more than 15 ppm sulfur. For locomotive and marine diesel, the action establishes a NRLM limit of 15 ppm in mid-2012.

*AEO2010* incorporates the American Jobs Creation Act of 2004 to extend the Federal tax credit of 51 cents per gallon of ethanol blended into gasoline through 2010.

*AEO2010* represents major provisions in the Energy Policy Act of 2005 (EPACT05) concerning the petroleum industry, including: 1) removal of oxygenate requirement in RFG; and 2) extension of tax credit of $1 per gallon for soybean oil biodiesel and $0.50 per gallon for yellow grease biodiesel through 2008.

The Emergency Stabilization Act of 2008 extended the soybean oil for biodiesel tax credit again to 2009 and increased the yellow grease credit to $1 per gallon.

AEO2010 includes provisions outlined in the Energy Independence and Security Act of 2007 (EISA2007) concerning the petroleum industry, including a renewable Fuels Standard increasing total U.S. consumption of renewable fuels.  Although the statute calls for higher levels, due to uncertainty about whether the new RFS schedule can be achieved and the stated mechanisms for reducing the cellulosic biofuel schedule, the final schedules in PMM were assumed to be: 1) 30.9 billion gallons in 2023 for all fuels; 2) 15.9 billion gallons in 2023 for advanced biofuels; 3) 10.9 billion gallons in 2023 for cellulosic biofuel; 4) 1 billion gallons of biodiesel by 2023.[13]

*AEO2010* includes the EPA Mobil Source Air Toxics (MSAT 2) rule which includes the requirement that all gasoline products (including reformulated and conventional gasoline) produced at a refinery during a calendar year will need to contain no more than 0.61 percent benzene by volume. This does not include gasoline produced or sold in California which is already covered by the current California Phase 3 Reformulated Gasoline Program.

Due to the uncertainty surrounding compliance options, *AEO2010 did not include any explicit modeling treatment of the International Maritime Organization*'s "MARPOL Annex 6" rule covering cleaner marine fuels and ocean ship engine emissions.

# Notes and Sources

[1]  U.S. Environmental Protection Agency, "Tier 2" Motor Vehicle Emissions Standards and Gasoline  Sulfur Control Requirements, February 2000, (Washington, DC).

[2]  Federal Register, Environmental Protection Agency, 40 CFR Part 80, Regulation of  Fuels  and Fuel Additives:  Standards  for  Reformulated  and  Conventional  Gasoline,   Rules  and  Regulations,  p.  7800, (Washington, DC, February 1994).

[3]  Marano, John, "Alternative Fuels Technology Profile: Cellulosic Ethanol", March 2008.

[4]  Ibid.

[5]  U.S. Department of Agriculture, "USDA Agricultural Baseline Projections to 2019," February 2009, http://www.ers.usda.gov/publications/oce091.

[6] Ibid

[7] Shapouri Hosein; Gallagher, Paul; and Graboski, Mike.  USDA's 1998 Ethanol Cost-of-Production Survey.  January 2002.

[8]  Marland, G. and A.F. Turhollow. 1991. "CO2 Emissions from the Production and Combusion of Fuel Ethanol from  Corn." Energy, 16(11/12):1307-1316.

[9] U.S. Environmental Protection Agency, Regulatory Impact Analysis: Heavy-Duty Engine and Vehicle Standards and Highway Diesel Fuel Sulfur Requirements, EPA420-R-00-026 (Washington, DC, December 2000).

[10]  American Petroleum Institute, *How Much We Pay for Gasoline*:  1996 Annual Review, May 1997.

[11] Economic lifetime is 15 years for cellulosic ethanol, biomass Fischer-Tropsch, and Pyrolysis Oil.  It is 20 years for all others.  Required rate of return is calculated using a 60:40 debt to equity ratio and the capital asset pricing model for the cost of equity.

[12] http://www.agrievolution.com/atti/brasile_02.ppt.

[13]  The 2023 RFS levels used in the PMM reinstates the temporary reductions (1.1 billion gallons) that were needed in 2022 for the *all fuels*, *advanced biofuels*, and *cellulosic biofuel* categories

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# Coal Market Module

The NEMS Coal Market Module (CMM) provides projections of U.S. coal production, consumption, exports, imports, distribution, and prices. The CMM comprises three functional areas: coal production, coal distribution, and coal exports. A detailed description of the CMM is provided in the EIA publication, *Coal Market Module of the National Energy Modeling System 2010,* DOE/EIA-M060(2010) (Washington, DC, 2010).

## Key Assumptions

### Coal Production

The coal production submodule of the CMM generates a different set of supply curves for the CMM for each year of the projection. Forty separate supply curves are developed for each of 14 supply regions, nine coal types (unique combinations of thermal grade and sulfur content), and two mine types (underground and surface). Supply curves are constructed using an econometric formulation that relates the minemouth prices of coal for the supply regions and coal types to a set of independent variables. The independent variables include: capacity utilization of mines, mining capacity, labor productivity, the user cost of capital of mining equipment, the cost of factor inputs (labor and fuel), and other mine supply costs.

The key assumptions underlying the coal production modeling are:

- As capacity utilization increases, higher minemouth prices for a given supply curve are projected. The opportunity to add capacity is allowed within the modeling framework if capacity utilization rises to a pre-determined level, typically in the 80 percent range. Likewise, if capacity utilization falls, mining capacity may be retired. The amount of capacity that can be added or retired in a given year depends on the level of capacity utilization, the supply region, and the mining process (underground or surface). The volume of capacity expansion permitted in a projection year is based upon historical patterns of capacity additions.

- Between 1980 and 1999, U.S. coal mining productivity increased at an average rate of 6.7 percent per year from 1.93 to 6.61 tons per miner per hour. The major factors underlying these gains were interfuel price competition, structural change in the industry, and technological improvements in coal mining.[1] Since 1999, however, growth in overall U.S. coal mining productivity has slowed substantially, decreasing at a rate of 1.1 percent per year to 5.96 tons per miner hour in 2008. By region, productivity in most of the coal producing basins represented in the CMM has declined some during the past 5 years. In the Central Appalachian coal basin, which has been mined extensively, productivity declined by a significant 33 percent between 1999 and 2008, corresponding to an average decline of 4.4 percent per year.

  Over the projection period, labor productivity is expected to decline in most coal supply regions, reflecting the trend of the previous five years. Higher stripping ratios and the added labor needed to maintain more extensive underground mines offset productivity gains achieved from improved equipment, automation, and technology. Productivity in some areas of the East is projected to decline as operations move from mature coalfields to marginal reserve areas. Regulatory restrictions on surface mines and fragmentation of underground reserves limit the benefits that can be achieved by Appalachian producers from economies of scale.

  In the CMM, different rates of productivity improvement are assumed for each of the 40 coal supply curves used to represent U.S. coal supply. These estimates are based on recent historical data and expectations regarding the penetration and impact of new coal mining technologies. [2] Data on labor productivity are provided on a quarterly and annual basis by individual coal mines and preparation plants on the U.S. Mine Safety and Health Administration's Form 7000-2, "Quarterly Mine Employment and Coal Production Report" and the Energy Information Administration's Form EIA-7A, *Coal Production Report*. In the reference case, overall U.S. coal mining labor productivity declines at

rate of 0.3 percent a year between 2008 and 2035. Reference case projections of coal mining productivity by region are provided in Table 12.1.

- With the exception of the *AEO2010* Low and High Coal Cost Cases, both the wage rate for U.S. coal miners and mine equipment costs are assumed to remain constant in 2008 dollars (i.e., increase at the general rate of inflation) over the projection period. This assumption primarily reflects the recent trends in these cost variables.

## *Coal Distribution*

The coal distribution submodule of the CMM determines the least-cost (minemouth price plus transportation cost) supplies of coal by supply region for a given set of coal demands in each demand sector using a linear programming algorithm. Production and distribution are computed for 14 supply (Figure 10) and 16 demand regions (Figure 11) for 49 demand subsectors.

The projected levels of coal-to-liquids, industrial steam, coking, and residential/commercial coal demand are provided by the petroleum market, industrial, commercial, and residential demand modules, respectively; electricity coal demands are projected by the EMM; coal imports and coal exports are projected by the CMM based on non-U.S. coal supply availability, endogenously determined U.S. import demand, and exogenously determined world coal demand (non-U.S.).

**Table 12.1. Coal Mining Productivity by Region**
(Short Tons per Miner Hour)

| Supply Region | 2008 | 2015 | 2020 | 2025 | 2030 | 2035 | Average Annual Growth 08-35 |
|---|---|---|---|---|---|---|---|
| Northern Appalachia | 3.70 | 3.51 | 3.49 | 3.44 | 3.40 | 3.35 | -0.4% |
| Central Appalachia | 2.69 | 2.34 | 2.19 | 2.07 | 2.04 | 1.96 | -1.2% |
| Southern Appalachia | 2.08 | 1.89 | 1.76 | 1.70 | 1.67 | 1.65 | -0.8% |
| Eastern Interior | 4.22 | 4.14 | 4.12 | 4.11 | 4.08 | 4.05 | -0.2% |
| Western Interior | 2.35 | 2.32 | 2.32 | 2.32 | 2.32 | 2.32 | 0.0% |
| Gulf Lignite | 7.79 | 6.77 | 6.60 | 6.44 | 6.28 | 6.13 | -0.9% |
| Dakota Lignite | 15.49 | 15.09 | 15.47 | 15.86 | 16.26 | 16.67 | 0.3% |
| Western Montana | 20.82 | 14.43 | 14.95 | 15.92 | 18.55 | 19.20 | -0.3% |
| Wyoming, Northern Power River Basin | 33.79 | 30.99 | 30.22 | 29.48 | 28.75 | 28.03 | -0.7% |
| Wyoming, Southern Power River Basin | 37.58 | 34.47 | 33.62 | 32.78 | 31.97 | 31.18 | -0.7% |
| Western Wyoming | 8.17 | 7.84 | 7.97 | 8.15 | 8.47 | 8.48 | 0.1% |
| Rocky Mountain | 6.23 | 5.52 | 5.50 | 5.47 | 5.42 | 5.38 | -0.5% |
| Arizona/New Mexico | 8.54 | 8.80 | 8.88 | 8.95 | 9.00 | 9.05 | 0.2% |
| Alaska/Washington | 6.29 | 6.29 | 6.29 | 6.29 | 6.29 | 6.29 | 0.0% |
| | | | | | | | |
| U.S. Average | 5.96 | 6.09 | 6.10 | 6.38 | 6.62 | 6.51 | 0.3% |

Source: Energy Information Administration, AEO2010 National Energy Modeling System run AEO2010r.D111809a.

**Figure 10. Coal Supply Regions**
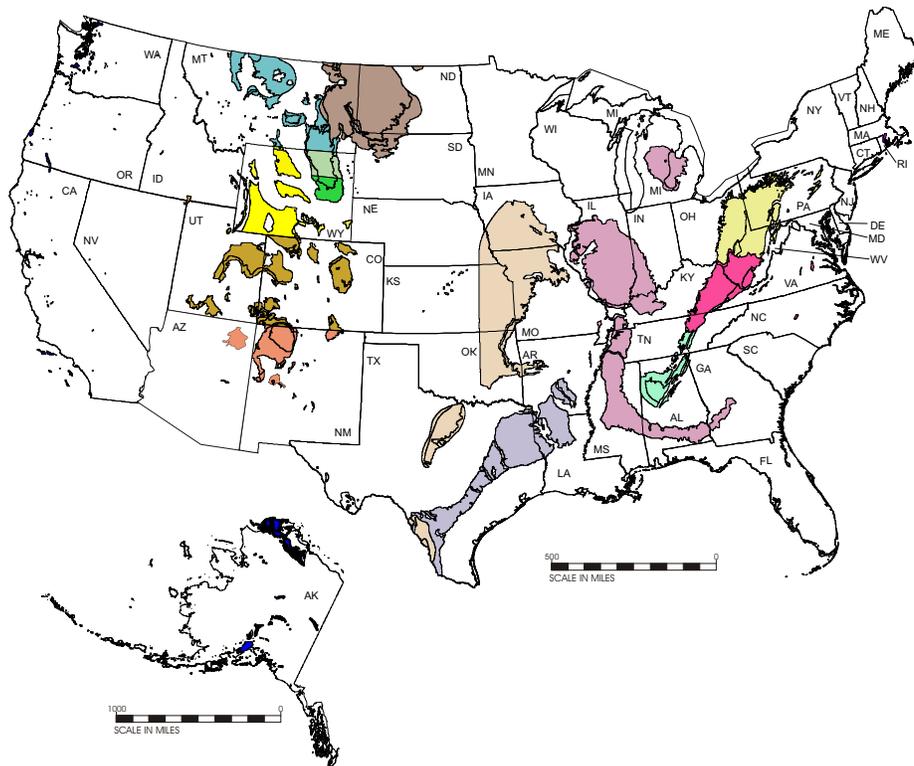


APPALACHIA
- Northern Appalachia
- Central Appalachia
- Southern Appalachia

INTERIOR
- Eastern Interior
- Western Interior
- Gulf Lignite

NORTHERN GREAT PLAINS
- Dakota Lignite
- Western Montana
- Wyoming, Northern Powder River Basin
- Wyoming, Southern Powder River Basin
- Western Wyoming

OTHER WEST
- Rocky Mountain
- Southwest
- Northwest

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting

**Figure 11. Coal Demand Regions**
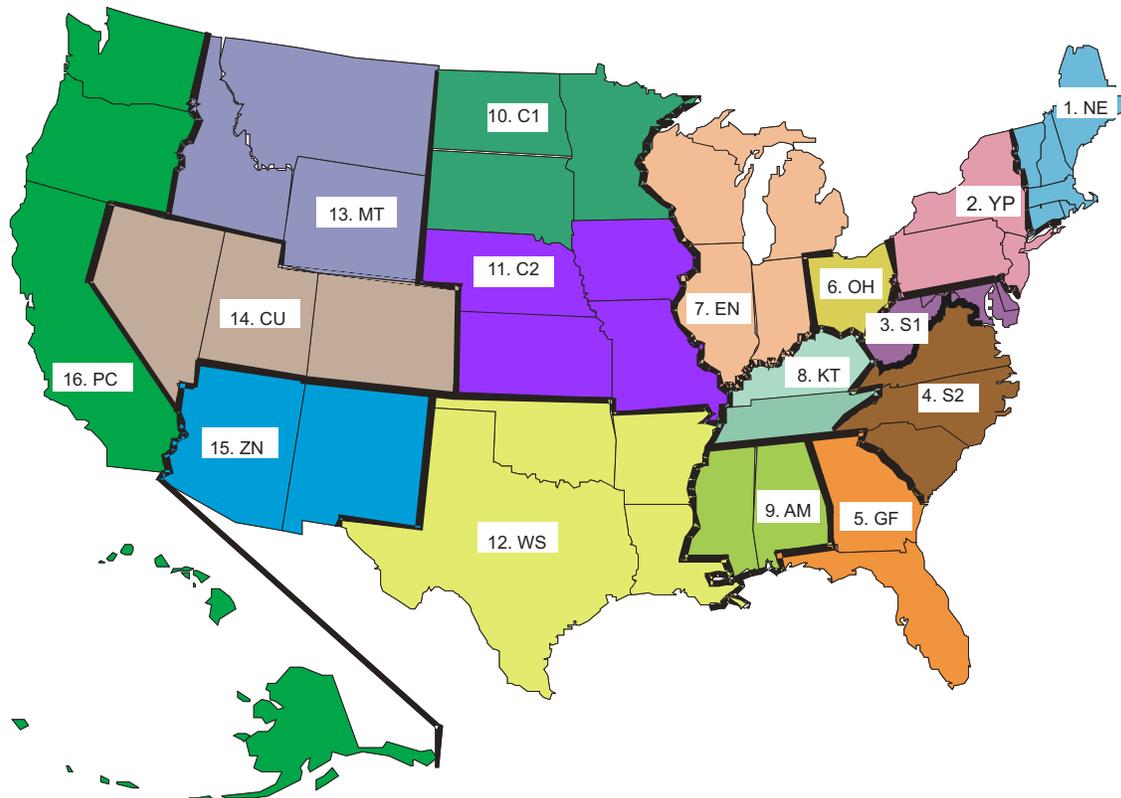


| Region Code | Region Content |
|---|---|
| 1. NE | CT,MA,ME,NH,RI,VT |
| 2. YP | NY,PA,NJ |
| 3. S1 | WV,MD,DC,DE |
| 4. S2 | VA,NC,SC |
| 5. GF | GA,FL |
| 6. OH | OH |
| 7. EN | IN,IL,MI,WI |
| 8. KT | KY,TN |

| Region Code | Region Content |
|---|---|
| 9. AM | AL,MS |
| 10. C1 | MN,ND,SD |
| 11. C2 | IA,NE,MO,KS |
| 12. WS | TX,LA,OK,AR |
| 13. MT | MT,WY,ID |
| 14. CU | CO,UT,NV |
| 15. ZN | AZ,NM |
| 16. PC | AK,HI,WA,OR,CA |

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting.

The key assumptions underlying the coal distribution modeling are:

• Base-year (2008) transportation costs are estimates of average transportation costs for each origin-destination pair without differentiation by transportation mode (rail, truck, barge, and conveyor). These costs are computed as the difference between the average delivered price for a demand region (by sector and for export) and the average minemouth price for a supply curve. Delivered price data are from Form EIA-3, *Quarterly Coal Consumption Report-Manufacturing Plants*, Form EIA-5, *Quarterly Coke Consumption* and *Quality Report, Coke Plants*, Form EIA-923, *Power Plant Operations Report, and the U.S. Bureau of the Census' Monthly Report EM-545. Minemouth price data are from Form EIA-7A, Coal Production Report*.

• For the electricity sector only, a two-tier transportation rate structure is used for those regions which, in response to rising demands or changes in demands, may expand their market share beyond historical levels. The first-tier rate is representative of the historical average transportation rate. The second-tier transportation rate is used to capture the higher cost of expanded shipping distances in large demand regions. The second tier is also used to capture costs associated with the use of

subbituminous coal at units that were not originally designed for its use.  This cost is estimated at $0.10 per million Btu (2000 dollars). [3]

- Coal transportation costs, both first- and second-tier rates, are modified over time by two regional (east and west) transportation indices.  The indices, calculated econometrically, are measures of the change in average transportation rates, on a tonnage basis, that occurs between successive years for coal shipments.   An east index is used for coal originating from eastern supply regions while a west index is used for coal originating from western supply regions.  The east index is a function of railroad productivity, the user cost of capital for railroad equipment, and national average diesel fuel price.  The user cost of capital for railroad equipment is calculated from the producer price index (PPI) for railroad equipment, and accounts for the opportunity cost of money used to purchase equipment, depreciation occurring as a result of use of the equipment (assumed at 10 percent), less any capital gain associated with the worth of the equipment.  In calculating the user cost of capital, a risk premium is added to the cost of borrowing in order to account for the possibility that greenhouse gas emissions may be regulated in the future.  The west index is a function of railroad productivity, investment, and western share of national coal consumption.  The indices are universally applied to all domestic coal transportation movements within the CMM.  In the *AEO2010* reference case, eastern coal transportation rates are projected to be the same in 2035 and western rates are projected to be 5 percent higher in 2035 compared to 2008.

For the projection period, the explanatory values are assumed to have varying impacts on the calculation of the indices.  For the west, investment is the analogous variable to the user cost of capital of railroad equipment.  The investment value and the PPI for rail equipment which is used to derive the user cost of capital increase with an increase in national ton-miles (total tons of coal shipped multiplied by the average distance).  Increases in investment (west) or the user cost of capital for railroad equipment (east) cause projected transportation rates to increase.  For both the east and the west, any related financial savings due to productivity improvements are assumed to be retained by the railroads and are not passed on to shippers in the form of lower transportation rates.  For that reason, productivity is held flat for the projection period for both regions.  For the east for the projection period, diesel fuel is removed from the equation in order to avoid double-counting the influence of diesel fuel costs with the impact of the fuel surcharge program.  The transportation rate indices for seven *AEO2010* cases are shown in Table 12.2.

**Table 12.2. Transportation Rate Multipliers**
(Constant Dollar Index, 2008=1.000)

| Scenario | Region: | 2008 | 2015 | 2020 | 2025 | 2030 | 2035 |
|---|---|---|---|---|---|---|---|
| Reference Case | East | 1.000 | 1.0101 | 1.0064 | 0.9925 | 0.9988 | 0.9968 |
| | West | 1.000 | 1.0236 | 1.0267 | 1.0412 | 1.0520 | 1.0504 |
| High Resource Price | East | 1.000 | 1.0160 | 1.0125 | 1.0165 | 1.0100 | 1.0044 |
| | West | 1.000 | 1.0217 | 1.0173 | 1.0229 | 1.0390 | 1.0379 |
| Low Resource Price | East | 1.000 | 1.0037 | 1.0033 | 0.9982 | 0.9949 | 0.9956 |
| | West | 1.000 | 1.0186 | 1.0353 | 1.0650 | 1.0694 | 1.0752 |
| High Economic Growth | East | 1.000 | 1.0104 | 1.0045 | 0.9934 | 0.9991 | 0.9956 |
| | West | 1.000 | 1.0251 | 1.0393 | 1.0566 | 1.0716 | 1.0701 |
| Low Economic Growth | East | 1.000 | 1.0076 | 1.0111 | 0.9972 | 1.0063 | 1.0108 |
| | West | 1.000 | 1.0181 | 1.0181 | 1.0279 | 1.0359 | 1.0323 |
| High Coal Cost | East | 1.000 | 1.0700 | 1.1100 | 1.1500 | 1.2000 | 1.2500 |
| | West | 1.000 | 1.0800 | 1.1400 | 1.2000 | 1.2600 | 1.3100 |
| Low Coal Cost | East | 1.000 | 0.9500 | 0.9000 | 0.8400 | 0.8000 | 0.7500 |
| | West | 1.000 | 0.9600 | 0.9200 | 0.8800 | 0.8400 | 0.7900 |

Source:  Projections: Energy Information Administration, National Energy Modeling System runs AEO2010r.D111809A, HP2010.D011910A, LP2010.D011910A, HM2010.D020310A, LM2010.D011110A, HCCST10.D120909A, LCCST10.D120909A. Based on methodology described in *Coal Market Module of the National Energy Modeling System 2010*, DOE/EIA-M066(2010) (Washington, DC, 2010).

- Major coal rail carriers have implemented fuel surcharge programs in which higher transportation fuel costs have been passed on to shippers. While the programs vary in their design, the Surface Transportation Board (STB), the regulatory body with limited authority to oversee rate disputes, recommended that the railroads agree to develop some consistencies among their disparate programs and likewise recommended closely linking the charges to actual fuel use. The STB cited the use of a mileage-based program as one means to more closely estimate actual fuel expenses.

  For *AEO2010*, representation of a fuel surcharge program is included in the coal transportation costs. For the west, the methodology is based on BNSF Railway Company's mileage-based program. The surcharge becomes effective when the projected nominal distillate price to the transportation sector exceeds $1.25 per gallon. For every $0.06 per gallon increase above $1.25, a $0.01 per carload mile is charged. For the east, the methodology is based on CSX Transportation's mileage-based program. The surcharge becomes effective when the projected nominal distillate price to the transportation sector exceeds $2.00 per gallon. For every $0.04 per gallon increase above $2.00, a $0.01 per carload mile is charged. The number of tons per carload and the number of miles vary with each supply and demand region combination and are a pre-determined model input. The final calculated surcharge (in constant dollars per ton) is added to the escalator-adjusted transportation rate. For every projection year, it is assumed that 100 percent of all coal shipments are subject to the surcharge program.

- Coal contracts in the CMM represent a minimum quantity of a specific electricity coal demand that must be met by a unique coal supply source prior to consideration of any alternative sources of supply. Base-year (2008) coal contracts between coal producers and electricity generators are estimated on the basis of receipts data reported by generators on the EIA-923, *Power Plant Operations Report*. Coal contracts are specified by CMM supply region, coal type, demand region, and whether or not a unit has flue gas desulfurization equipment. Coal contract quantities are reduced over time on the basis of contract duration data from information reported on the Form EIA-923, *Power Plant Operations Report*, historical patterns of coal use, and information obtained from various coal and electric power industry publications and reports.

- Electric generation demand received by the CMM is subdivided into "coal groups" representing demands for different sulfur and thermal heat content categories. This process allows the CMM to determine the economically optimal blend of different coals to minimize delivered cost, while meeting emissions requirements. Similarly, nongeneration demands are subdivided into subsectors with their own coal groups to ensure that, for example, lignite is not used to meet a coking coal demand.

- Coal-to-liquids (CTL) facilities are assumed to be economic when low-sulfur distillate prices reach high enough levels. These plants are assumed to be co-production facilities with generation capacity of 652 MW and the capability of producing 50,000 barrels of liquid fuel per day. The technology assumed is similar to an integrated gasification combined cycle, first converting the coal feedstock to gas, and then subsequently converting the syngas to liquid hydrocarbons using the Fisher-Tropsch process. Of the total amount of coal consumed at each plant, 46 percent of the energy input is retained in the product with the remaining energy used for conversion (38 percent) and for the production of power sold to the grid (17 percent). The liquid products produced include naptha, kerosene, and diesel. For *AEO2010*, coal-biomass-to-liquids capability has been incorporated into the NEMS structure. These facilities have the same operating features as CTL plants except 80 percent of the energy input is derived from coal with the remaining 20 percent derived from biomass.

## Coal Imports and Exports

Coal imports and exports are modeled as part of the CMM's linear program that provides annual projections of U.S. steam and metallurgical coal exports, in the context of world coal trade. The linear program determines the pattern of world coal trade flows that minimize the production and transportation costs of meeting U.S. import demand and a pre-specified set of regional world coal import demands. It does this subject to constraints on export capacity and trade flows.

The key assumptions underlying coal export modeling are:

- Coal buyers (importing regions) tend to spread their purchases among several suppliers in order to reduce the impact of potential supply disruptions, even though this may add to their purchase costs. Similarly, producers choose not to rely on any one buyer and instead endeavor to diversify their sales.

- Coking coal is treated as homogeneous. The model does not address quality parameters that define coking coals. The values of these quality parameters are defined within small ranges and affect world coking coal flows very little.

Data inputs for coal trade modeling:

- U.S. coal exports are determined, in part, by the projected level of world coal import demand. World steam and metallurgical coal import demands for the *AEO2010* cases are shown in Tables 12.3 and 12.4.

- Step-function coal export supply curves for all non-U.S. supply regions. The curves provide estimates of export prices per metric ton, inclusive of minemouth and inland freight costs, as well as the capacities for each of the supply steps.

- Ocean transportation rates (in dollars per metric ton) for feasible coal shipments between international supply regions and international demand regions. The rates take into account typical vessel sizes and route distances in thousands of nautical miles between supply and demand regions.

# Coal Quality

Each year the values of base year coal production, heat, sulfur and mercury (Hg) content and carbon dioxide emissions for each coal source in CMM are calibrated to survey data. Surveys used for this purpose are the Form EIA-923, a survey of the origin, cost and quality of fossil fuels delivered to generating facilities, the Form EIA-5 which records the origin, cost, and quality of coal receipts at domestic coke plants, and the Form EIA-3, which records the origin, cost and quality of coal delivered to domestic industrial consumers. Estimates of coal quality for the export and residential/commercial sectors are made using the survey data for coal delivered to coking coal and industrial steam coal consumers. Hg content data for coal by supply region and coal type, in units of pounds of Hg per trillion Btu, shown in Table 71, were derived from shipment-level data reported by electricity generators to the Environmental Protection Agency in its 1999 Information Collection Request. The database included approximately 40,500 Hg samples reported for 1,143 generating units located at 464 coal-fired facilities. Carbon dioxide emission factors for each coal type are shown in Table 12.5 in pounds of carbon dioxide emitted per million Btu. [4]

The CMM projects steam and metallurgical coal trade flows from 17 coal-exporting regions of the world to 20 import regions for three coal types (coking, bituminous steam, and subbituminous). It includes five U.S. export regions and four U.S. import regions.

**Table 12.3. World Steam Coal Import Demand by Import Region**
(Million metric tons of coal equivalent)

| Import Regions[1] | 2008[2] | 2015 | 2020 | 2025 | 2030 | 2035 |
|---|---|---|---|---|---|---|
| **The Americas** | 59.7 | 53.6 | 58.6 | 60.0 | 68.2 | 84.0 |
| United States[3] | 25.7 | 24.2 | 30.1 | 27.4 | 30.1 | 43.1 |
| Canada | 16.2 | 9.7 | 7.8 | 8.2 | 8.2 | 8.2 |
| Mexico | 3.0 | 5.5 | 6.4 | 7.9 | 11.0 | 12.1 |
| South America | 14.8 | 14.2 | 14.3 | 16.6 | 19.0 | 20.7 |
| | | | | | | |
| **Europe** | 163.9 | 194.7 | 179.8 | 177.0 | 176.3 | 176.8 |
| Scandinavia | 10.6 | 7.9 | 6.5 | 5.8 | 4.9 | 4.5 |
| U.K/Ireland | 35.6 | 42.6 | 28.6 | 29.5 | 30.8 | 32.1 |
| Germany/Austria | 33.7 | 38.5 | 38.3 | 37.3 | 36.3 | 35.3 |
| Other NW Europe | 23.1 | 22.6 | 22.6 | 20.7 | 19.8 | 19.0 |
| Iberia | 19.4 | 21.5 | 20.4 | 19.0 | 17.5 | 16.2 |
| Italy | 12.7 | 25.1 | 26.9 | 26.9 | 26.9 | 26.9 |
| Med/E Europe | 28.8 | 36.5 | 36.5 | 37.8 | 40.1 | 42.8 |
| | | | | | | |
| **Asia** | 314.3 | 362.6 | 389.1 | 421.0 | 467.1 | 518.7 |
| Japan | 94.1 | 87.6 | 85.0 | 82.3 | 80.1 | 78.0 |
| East Asia | 112.3 | 112.3 | 113.8 | 120.7 | 131.0 | 142.3 |
| China/Hong Kong | 42.5 | 65.5 | 73.4 | 81.5 | 89.2 | 97.8 |
| ASEAN | 32.0 | 41.0 | 50.2 | 60.5 | 67.9 | 76.2 |
| Indian Sub | 33.4 | 56.2 | 66.7 | 76.0 | 98.9 | 124.4 |
| | | | | | | |
| **Total** | 537.9 | 610.9 | 627.5 | 658.0 | 711.6 | 779.5 |

[1]Import Regions: **South America:** Argentina, Brazil, Chile, Puerto Rico; **Scandinavia:** Denmark, Finland, Norway, Sweden; **Other NW Europe:** Belgium, France, Luxembourg, Netherlands; **Iberia:** Portugal, Spain; **Med/E Europe:** Algeria, Bulgaria, Croatia, Egypt, Greece, Israel, Malta, Morocco, Romania, Tunisia, Turkey; **East Asia:** North Korea, South Korea, Taiwan; **ASEAN:** Malaysia, Philippines, Thailand; **Indian Sub:** Bangladesh, India, Iran, Pakistan, Sri Lanka.

[2]The base year of the world trade projection for coal is 2008.

[3]Excludes imports to Puerto Rico and the U.S. Virgin Islands.

Notes:  One "metric ton of coal equivalent" contains 27.78 million Btu.  Totals may not equal sum of components due to independent rounding.

**Table 12.4. World Metallurgical Coal Import Demand by Import Region**
(Million metric tons of coal equivalent)

| Import Regions[1] | 2008[2] | 2015 | 2020 | 2025 | 2030 | 2035 |
|---|---|---|---|---|---|---|
| The Americas | 21.1 | 25.0 | 28.7 | 31.9 | 35.8 | 40.3 |
| United States | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Canada | 3.4 | 3.2 | 3.1 | 3.0 | 2.9 | 2.7 |
| Mexico | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| South America | 15.4 | 19.4 | 23.2 | 26.6 | 30.6 | 35.2 |
| | | | | | | |
| **Europe** | 64.0 | 58.2 | 58.4 | 58.3 | 58.5 | 58.7 |
| Scandinavia | 2.7 | 2.6 | 2.7 | 2.7 | 2.7 | 2.7 |
| U.K/Ireland | 6.5 | 7.2 | 7.2 | 7.2 | 7.2 | 7.3 |
| Germany/Austria | 11.5 | 9.3 | 9.3 | 9.2 | 9.2 | 9.2 |
| Other NW Europe | 17.2 | 14.8 | 14.6 | 14.4 | 14.4 | 14.2 |
| Iberia | 3.8 | 4.0 | 3.9 | 3.8 | 3.7 | 3.6 |
| Italy | 7.4 | 7.4 | 7.3 | 7.3 | 7.2 | 7.2 |
| Med/E Europe | 14.9 | 12.9 | 13.4 | 13.7 | 14.1 | 14.5 |
| | | | | | | |
| **Asia** | 141.2 | 160.6 | 166.9 | 184.2 | 188.9 | 195.2 |
| Japan | 81.4 | 73.1 | 72.1 | 69.2 | 66.3 | 63.4 |
| East Asia | 31.4 | 32.9 | 34.0 | 35.2 | 36.3 | 37.5 |
| China/Hong Kong | 2.2 | 15.4 | 17.3 | 24.0 | 28.4 | 33.5 |
| ASEAN | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Indian Sub | 26.2 | 39.2 | 43.5 | 55.8 | 57.9 | 60.8 |
| | | | | | | |
| **Total** | 226.3 | 243.8 | 254.0 | 274.4 | 283.2 | 294.2 |

[1]Import Regions: **South America:** Argentina, Brazil, Chile, Puerto Rico; **Scandinavia:** Denmark, Finland, Norway, Sweden; **Other NW Europe:** Belgium, France, Luxembourg, Netherlands; **Iberia:** Portugal, Spain; **Med/E Europe:** Algeria, Bulgaria, Croatia, Egypt, Greece, Israel, Malta, Morocco, Romania, Tunisia, Turkey; **East Asia:** North Korea, South Korea, Taiwan; **ASEAN:** Malaysia, Philippines, Thailand; **Indian Sub:** Bangladesh, India, Iran, Pakistan, Sri Lanka.

[2] The base year of the world trade projection for coal is 2008.

Notes: One "metric ton of coal equivalent" contains 27.78 million Btu. Totals may not equal sum of components due to independent rounding.

Source: Projections: Energy Information Administration, Office of Integrated Analysis and Forecasting.

# Legislation and Regulations

The *AEO2010* is based on current laws and regulations in effect before October 31, 2009.

The *AEO2010* reference case incorporates provisions of the Clean Air Act Amendments of 1990 as they apply to $SO_2$ and NOx emissions.

The Clean Air Mercury Rule (CAMR) and the Clean Air Interstate Rule (CAIR) are additional rules promulgated by EPA related to coal emissions but were vacated by the courts in February and July 2008, respectively. CAIR addresses further $SO_2$ emissions and seasonal and annual NOx emissions while CAMR addresses mercury emissions. As a result of the court ruling, CAMR is not included in the *AEO2010* reference case and, in the absence of a cap-and-trade system, mercury allowance prices are not modeled. However, with or without CAMR, many States were planning to implement mercury rules of their own. For those States, the effects of state laws are approximated and modeled for the *AEO2010*. CAIR, however, was temporarily reinstated by the courts in December 2008 and is included in *AEO2010*.

**Table 12.5. Production, Heat Content, and Sulfur, Mercury and Carbon Dioxide Emission Factors by Coal Type and Region**

| Coal Supply Region | States | Coal Rank and Sulfur Level | Mine Type | 2008 Production (Million Short tons) | Heat Content (Million Btu per Short ton) | Sulfur Content (Pounds Per Million Btu) | Mercury Content (Pounds Per Trillion Btu) | CO₂ (Pounds Per Million Btu) |
|---|---|---|---|---|---|---|---|---|
| Northern Appalachia | PA, OH, MD, WV(North) | Metallurgical | Underground | 7.6 | 26.28 | 0.73 | N/A | 207.5 |
| | | Mid-Sulfur Bituminous | All | 55.1 | 25.19 | 1.28 | 11.17 | 207.5 |
| | | High-Sulfur Bituminous | All | 73.0 | 24.80 | 2.51 | 11.67 | 205.7 |
| | | Waste Coal (Gob and Culm) | Surface | 13.7 | 12.35 | 2.68 | 63.9 | 205.7 |
| Central Appalachia | KY(East), WV (South), VA, TN (North) | Metallurgical | Underground | 46.5 | 26.28 | 0.69 | N/A | 205.9 |
| | | Low-Sulfur Bituminous | All | 34.1 | 24.83 | 0.54 | 5.61 | 205.9 |
| | | Mid-Sulfur Bituminous | All | 153.7 | 24.67 | 0.89 | 7.58 | 205.9 |
| Southern Appalachia | AL, TN(South) | Metallurgical | Underground | 9.3 | 26.28 | 0.56 | N/A | 205.4 |
| | | Low-Sulfur Bituminous | All | 0.5 | 24.41 | 0.52 | 3.87 | 205.4 |
| | | Mid-Sulfur Bituminous | All | 11.3 | 24.07 | 1.27 | 10.15 | 205.4 |
| East Interior | IL, IN, KY(West), MS | Mid-Sulfur Bituminous | All | 20.9 | 22.54 | 1.07 | 5.6 | 205.0 |
| | | High-Sulfur Bituminous | All | 78.4 | 22.85 | 2.63 | 6.35 | 204.7 |
| | | Mid-Sulfur Lignite | Surface | 2.8 | 10.14 | 0.95 | 14.11 | 213.5 |
| West Interior | IA, MO, KS, AR, OK, TX(Bit) | High-Sulfur Bituminous | Surface | 2.0 | 22.74 | 2.05 | 21.55 | 204.4 |
| Gulf Lignite | TX(Lig), LA | Mid-Sulfur Lignite | Surface | 36.4 | 13.39 | 1.21 | 14.11 | 213.5 |
| | | High-Sulfur Lignite | Surface | 6.5 | 11.79 | 3.04 | 15.28 | 213.5 |
| Dakota Lignite | ND, MT(Lig) | Mid-Sulfur Lignite | Surface | 30.0 | 13.26 | 1.13 | 8.38 | 218.8 |
| Western Montana | MT(Bit and Sub) | Low-Sulfur Subbituminous | Underground | 0.2 | 19.80 | 0.60 | 5.06 | 209.6 |
| | | Low-Sulfur Subbituminous | Surface | 26.6 | 18.32 | 0.38 | 5.06 | 213.4 |
| | | Mid-Sulfur Subbituminous | Surface | 17.6 | 17.07 | 0.80 | 5.47 | 213.4 |
| Northern Wyoming | WY(Northern Powder River Basin) | Low-Sulfur Subbituminous | Surface | 183.5 | 16.80 | 0.37 | 7.08 | 212.7 |
| | | Mid-Sulfur Subbituminous | Surface | 4.1 | 16.16 | 0.73 | 7.55 | 212.7 |
| Southern Wyoming | WY(Southern Powder River Basin) | Low-Sulfur Subbituminous | Surface | 264.1 | 17.57 | 0.31 | 5.22 | 212.7 |
| Western Wyoming | WY(Other Basins excluding Powder River Basin) | Low-Sulfur Subbituminous | Underground | 3.5 | 18.78 | 0.65 | 2.19 | 206.5 |
| | | Low-Sulfur Subbituminous | Surface | 5.3 | 19.05 | 0.45 | 4.06 | 212.7 |
| | | Mid-Sulfur Subbituminous | Surface | 7.1 | 19.31 | 0.83 | 4.35 | 212.7 |
| Rocky Mountain | CO, UT | Low-Sulfur Bituminous | Underground | 48.7 | 23.12 | 0.47 | 3.82 | 205.1 |
| | | Low-Sulfur Subbituminous | Surface | 7.7 | 20.38 | 0.42 | 2.04 | 212.7 |
| Arizona/ New Mexico | AZ, NM | Low-Sulfur Bituminous | Surface | 8.4 | 21.68 | 0.52 | 4.66 | 207.5 |
| | | Mid-Sulfur Subbituminous | Surface | 18.3 | 18.39 | 0.89 | 7.18 | 208.8 |
| | | Mid-Sulfur Bituminous | Underground | 7.0 | 19.03 | 0.70 | 7.18 | 208.8 |
| Alaska/ Washington | WA, AK | Mid-Sulfur Subbituminous | Surface | 1.5 | 15.48 | 0.24 | 6.99 | 210.0 |

N/A = not available.

*Indicates that quantity is less than 50,000 short tons.

Source: Energy Information Administration, Form EIA-3, "Quarterly Coal Consumption Report—Manufacturing Plants"; Form EIA-5, "Quarterly Coal Consumption and Quality Report, Coke Plants"; Form EIA-6A, "Coal Distribution Report—Annual"; Form EIA-7A, "Coal Production Report", and Form EIA-923, "Power Plant Operations Report". U.S. Department of Commerce, Bureau of the Census, "Monthly Report EM-545." U.S. Environmental Protection Agency, Emission Standards Division, *Information Collection Request for Electric Utility Steam Generating Unit, Mercury Emissions Information Collection Effort* (Research Triangle Park, NC, 1999). B.D. Hong and E.R. Slatick, "Carbon Dioxide Emission Factors for Coal," in Energy Information Administration, *Quarterly Coal Report*, January-March 1994, DOE/EIA-0121 (94/Q1) (Washington, DC, August 1995).

The Energy Improvement and Extension Act of 2008 (EIEA) passed in October 2008 as part of the Emergency Economic Stabilization Act of 2008. Subtitle B provides investment tax credits for various projects sequestering $CO_2$. These provisions are assumed to result in 1 gigawatt of advanced coal-fired capacity with carbon capture and sequestration by 2017 in the *AEO2010* reference case. Subtitle B also extends the phaseout of payments by coal producers to the Black Lung Disability Trust Fund from 2013 to 2018 and is also modeled in the *AEO2010*.

Title IV, under Energy and Water Development, of the American Recovery and Revitalization Act of 2009 (ARRA), provides $3.4 billion for additional research and development on fossil energy technologies. This includes $800 million to fund projects under the Clean Coal Power Initiative (CCPI) program, focusing on projects that capture and sequester greenhouse gases. In July 2009, a total of $408 million, was allocated to two projects, the Basin Electric Power Cooperative's Antelope Valley Station in North Dakota and the Hydrogen Energy Project in California, to collectively demonstrate the capability to capture 3,000,000 tons of carbon dioxide per year. In December 2009, three additional project awards were announced through the CCPI program and will receive part of their government funding through ARRA. These projects include American Electric Power's Mountaineer plant in West Virginia (235 megawatt flue gas stream), Alabama Power's Barry plant in Alabama (160 megawatt flue gas stream), and a new plant to be built by Summit Texas Clean Energy in Texas. To reflect the impact of this provision, the *AEO2010* reference case assumes that an additional 1 gigawatt of coal capacity with CCS will be stimulated by 2017.

Title XVII of the Energy Policy Act of 2005 authorizes loan guarantees for projects that avoid, reduce, or sequester greenhouse gasses. For *AEO2010,* The 2 gigawatts of advanced coal-fired capacity with carbon capture and sequestration assumed for EIEA and ARRA are also assumed to benefit from these loan guarantees.

Beginning in 2009, electricity generating units of 25 megawatts and greater are required to hold an allowance for each ton of $CO_2$ emitted in 10 Northeastern States as part of the Regional Greenhouse Gas Initiative (RGGI). The States participating in RGGI include Connecticut, Maine, Maryland, Massachusetts, Rhode Island, Vermont, New York, New Jersey, New Hampshire, and Delaware. RGGI is modeled in *AEO2010* as an emissions reduction for the Middle Atlantic region.

# Coal Alternative Cases

## *Coal Cost Cases*

In the reference case, coal mine labor productivity is assumed to decline on average by 0.3 percent per year through 2035 while miner wage rates and mine equipment costs remain constant in 2008 dollars. Eastern and Western transportation rates are flat and 5 percent higher, respectively, in 2035 compared to 2008. In two alternative coal cost cases, productivity, average miner wages, equipment cost, and transportation rate assumptions were modified for 2010 through 2035 in order to examine the impacts on U.S. coal supply, demand, distribution and prices.

In the low mining cost case, coal mine labor productivity is assumed to increase at an average rate of 3.2 percent per year through 2035. Coal mining wages, mine equipment costs, and other mine suppy costs are all assumed to be about 25 percent lower by 2035 in real terms in the low coal cost case. Coal transportation rates, excluding the impact of fuel surcharges, are assumed to be 25 percent lower by 2035.

In the high mining cost case, coal mine labor productivity is assumed to decline at an average rate of 3.0 percent per year through 2035. Coal mining wages, mine equipment costs, and other mine supply costs are assumed to be about 30 percent higher by 2035. Compared to the reference case, coal transportation rates are assumed to be 25 percent higher by 2035.

The low and high coal cost cases represent fully integrated NEMS runs, with feedback from the Macroeconomic Activity, International, supply, conversion, and end-use demand modules.

## No Greenhouse Gas Concern Case

In the reference case, to reflect the market reaction to potential future GHG regulation, a 3-percentage-point increase in the cost of capital for investments in new coal-fired power plants without carbon capture and sequestration technology and new coal-to-liquids plants is assumed.  Those assumptions affect cost evaluations for the construction of new capacity but not the actual operating costs when a new plant begins operation nor does it affect the operation of existing plants.  This adjustment was first implemented for *AEO2009*.

The No GHG concern case excludes the 3-percentage point increase in the cost of capital.

# Notes and Sources

[1]  Energy Information Administration, The U.S. Coal Industry, 1970-1990: Two Decades of Change, DOE/EIA-0559, (Washington, DC, November 1992).

[2]  Stanley C. Suboleski, et.al., Central Appalachia: Coal Mine Productivity and Expansion, Electric Power Research Institute, EPRI IE-7117, (September 1991).

[3]  The estimated cost of switching to subbituminous coal, $0.10 per million Btu (2000 dollars), was derived by Energy Ventures Analysis, Inc. and was recommended for use in the CMM as part of an Independent Expert Review of the Annual Energy Outlook 2002's Powder River Basin production and transportation rates.  Barbaro, Ralph and Seth Schwartz. *Review of the Annual Energy Outlook 2002 Reference Case Forecast for PRB Coal*, prepared for the Energy Information Administration (Arlington, VA: Energy Ventures Analysis, Inc., August 2002)

[4] Hong, B.D. and Slatick, E.R. "Carbon Dioxide Emission Factors for Coal," Energy Information Administration, Quarterly Coal Report, January-March 1994, DOE/EIA-121 (94/Q1)  (Washington, DC, August 1995).

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# Renewable Fuels Module

The NEMS Renewable Fuels Module (RFM) provides natural resources supply and technology input information for projections of new central-station U.S. electricity generating capacity using renewable energy resources. The RFM has seven submodules representing various renewable energy sources, biomass, geothermal, conventional hydroelectricity, landfill gas, solar thermal, solar photovoltaics, and wind [1].

Some renewables, such as landfill gas (LFG) from municipal solid waste (MSW) and other biomass materials, are fuels in the conventional sense of the word, while others, such as water, wind, and solar radiation, are energy sources that do not involve the production or consumption of a fuel. Renewable technologies cover the gamut of commercial market penetration, from hydroelectric power, which was one of the first electric generation technologies, to newer power systems using biomass, geothermal, LFG, solar, and wind energy.

The submodules of the RFM interact primarily with the Electricity Market Module (EMM). Because of the high level of integration with the EMM, the final outputs (levels of consumption and market penetration over time) for renewable energy technologies are largely dependent upon the EMM. Because some types of biomass fuel can be used for either electricity generation or for the production of liquid fuels, such as ethanol, there is also some interaction with the Petroleum Market Module (PMM), which contains additional representation of some biomass feedstocks that are used primarily for liquid fuels production.

Projections for residential and commercial grid-connected photovoltaic systems are developed in the end-use demand modules and not in the RFM; see the Distributed Generation and Combined Heat and Power descriptions in the "Commercial Demand Module" section of the report.

## Key Assumptions

### *Nonelectric Renewable Energy Uses*

In addition to projections for renewable energy used in central station electricity generation, the *AEO2010* contains projections of nonelectric renewable energy uses for industrial and residential wood consumption, solar residential and commercial hot water heating, biofuels blending in transportation fuels, and residential and commercial geothermal (ground-source) heat pumps. Assumptions for their projections are found in the residential, commercial, industrial, and petroleum marketing sections of this report. Additional minor renewable energy applications occurring outside energy markets, such as direct solar thermal industrial applications or direct lighting, off-grid electricity generation, and heat from geothermal resources used directly (e.g., district heating and greenhouses) are not included in the projections.

### *Electric Power Generation*

The RFM considers only grid-connected central station electricity generation systems. The RFM submodules that interact with the EMM are the central station grid-connected biomass, geothermal, conventional hydroelectricity, landfill gas, solar (thermal and photovoltaic), and wind submodules, which provide specific data or estimates that characterize that resource. A set of technology cost and performance values is provided directly to the EMM and are central to the build and dispatch decisions of the EMM. The technology cost and performance values are summarized in Table 8.2 in the chapter discussing the EMM. Overnight capital costs are presented in Table 13.1 and the assumed capacity factors for new plants in Table 13.2.

**Table 13.1. Overnight Capital Cost Characteristics for Renewable Energy Generating Technologies in Three Cases (2008$/kW)**

| Technology | Year | Reference | High Cost Renewable[1] | Low Cost Renewable |
|---|---|---|---|---|
| Geothermal[2] | 2009 | 1,749 | 1,749 | 1,749 |
| | 2015 | 5,474 | 5,809 | 4,790 |
| | 2025 | 4,312 | 4,981 | 3,571 |
| | 2035 | 3,422 | 5,762 | 2,955 |
| Hydroelectric[2] | 2009 | 2,291 | 2,291 | 2,291 |
| | 2015 | 2,556 | 2,556 | 2,238 |
| | 2025 | 2,157 | 2,157 | 1,826 |
| | 2035 | 1,777 | 1,776 | 902 |
| Photovoltaic[3] | 2009 | 6,171 | 6,171 | 5,468 |
| | 2015 | 6,248 | 6,755 | 5,259 |
| | 2025 | 4,603 | 5,944 | 3,572 |
| | 2035 | 3,288 | 5,061 | 2,467 |
| Solar Thermal Electric[3] | 2009 | 5,132 | 5,132 | 4,414 |
| | 2015 | 4,814 | 5,618 | 4,047 |
| | 2025 | 3,617 | 4,943 | 2,804 |
| | 2035 | 2,555 | 4,209 | 1,918 |
| Biomass[4] | 2009 | 3,995 | 3,791 | 3,559 |
| | 2015 | 5,583 | 5,805 | 4,718 |
| | 2025 | 3,160 | 3,442 | 2,464 |
| | 2035 | 2,386 | 2,804 | 1,790 |
| Offshore Wind | 2009 | 3,937 | 3,841 | 3,505 |
| | 2015 | 4,118 | 4,204 | 3,490 |
| | 2025 | 3,374 | 3,699 | 2,641 |
| | 2035 | 2,662 | 3,150 | 1,997 |
| Onshore Wind[4] | 2009 | 1,966 | 1,966 | 1,759 |
| | 2015 | 2,546 | 2,582 | 2,170 |
| | 2025 | 2,225 | 2,272 | 1,753 |
| | 2035 | 1,884 | 1,935 | 1,414 |

[1]Overnight capital cost (that is, excluding interest charges), plus contingency, learning, and technological optimism factors, excluding regional multipliers.  A contingency allowance is defined by the American Association of Cost Engineers as the specific provision for unforeseeable elements of costs within a defined project scope.  This is particularly important where previous experience has shown that unforeseeable events which will increase costs are likely to occur.

[2]Geothermal and Hydroelectric costs are specific for each site. The table entries represent the least cost unit available in the specified year in the Northwest Power Pool region.  In the 2006 Renewables cases, costs vary as different sites continue to be developed.

[3]Biomass plants share significant components with similar coal-fired plants, these components continue to decline in cost in the Low Renewables case, although biomass-specific components (especially fuel handling components) do not see cost declines beyond 2010.

[4]Wind costs are region specific.  The table represents costs in the Northwest Power Pool region.

Source:  AEO2010 National Energy Modeling System runs AEO2010R.D110908A, HIRENCST10.D011410A, and LORENCST10.D011510A.

**Table 13.2. Capacity Factors[1] for Renewable Energy Generating Technologies in Three Cases**

| | Calendar Year | AEO2010R.d111809A | HIRENCST10.D011410A | LORENCST10.D011510A |
|---|---|---|---|---|
| Geothermal[2] | 2009 | 0.90 | 0.90 | 0.90 |
| | 2015 | 0.90 | 0.90 | 0.90 |
| | 2025 | 0.90 | 0.90 | 0.90 |
| | 2035 | 0.90 | 0.85 | 0.90 |
| Hydrolectric[2] | 2009 | 0.65 | 0.65 | 0.65 |
| | 2015 | 0.57 | 0.57 | 0.57 |
| | 2025 | 0.48 | 0.48 | 0.58 |
| | 2035 | 0.48 | 0.48 | 0.29 |
| Photovoltaic | 2009 | 0.21 | 0.21 | 0.21 |
| | 2015 | 0.21 | 0.21 | 0.21 |
| | 2025 | 0.21 | 0.21 | 0.21 |
| | 2035 | 0.21 | 0.21 | 0.21 |
| Solar Thermal Electric | 2009 | 0.31 | 0.31 | 0.31 |
| | 2015 | 0.31 | 0.31 | 0.31 |
| | 2025 | 0.31 | 0.31 | 0.31 |
| | 2035 | 0.31 | 0.31 | 0.31 |
| Biomass | 2009 | 0.83 | 0.83 | 0.83 |
| | 2015 | 0.83 | 0.83 | 0.83 |
| | 2025 | 0.83 | 0.83 | 0.83 |
| | 2035 | 0.83 | 0.83 | 0.83 |
| Offshore Wind[3] | 2009 | 0.43 | 0.43 | 0.43 |
| | 2015 | 0.43 | 0.43 | 0.43 |
| | 2025 | 0.45 | 0.43 | 0.45 |
| | 2035 | 0.45 | 0.43 | 0.45 |
| Onshore Wind[3] | 2009 | 0.44 | 0.44 | 0.44 |
| | 2015 | 0.46 | 0.44 | 0.40 |
| | 2025 | 0.46 | 0.44 | 0.40 |
| | 2035 | 0.40 | 0.44 | 0.40 |

[1]Capacity factor for units available to be built in specified year.  Capacity factor represents maximum expected annual power output as a fraction of theoretical output if plant were operated at rated capacity for a full year.

[2]Hydroelectric capacity factors are specific for each site.  The table entries represent the least-cost unit available in the specified year in the Northwest Power Pool region.

[3]Wind capacity factors are based on regional resource availability and generation characteristics.  The table entries represent the highest quality resource available in the specified year.

Source:  AEO2010 National Energy Modeling System runs AEO2010R.D110908A, HIRENCST10.D011410A, and LORENCST10.D011510A.

## *Capital Costs*

Capital costs for renewable technologies are affected by several factors.  Capital costs for technology to exploit some resources, especially geothermal, hydroelectric, and wind power resources, are assumed to be dependent on the quality, accessibility, and/or other site-specific factors in the areas with exploitable resources.  These factors can include additional costs associated with reduced resource quality; need to build or upgrade transmission capacity from remote resource areas to load centers; or local impediments to permitting, equipment transport, and construction in good resource areas due to siting issues, inadequate infrastructure, or rough terrain.

Short-term cost adjustment factors increase technology capital costs as a result of a rapid U.S. buildup in a single year, reflecting limitations on the infrastructure (for example, limits on manufacturing, resource assessment, and construction expertise) to accommodate unexpected demand growth.  These factors, which are applied to all new electric generation capacity, are a function of past production rates and are further described in *The Electricity Market Module of the National Energy Modeling System: Model Documentation Report*, available at http://tonto.eia.doe.gov/reports/filterD.cfm?other=Documentation.

Aso assumed to affect all new capacity types are costs associated with construction commodities. Through the middle of this decade, the installed cost for most new plants was observed to increase. Although several factors contributed to this cost escalation, some of which may be more or less important to specific types of new capacity, much of the overall cost increase was correlated with increases in the cost of construction materials, such as bulk metals, specialty metals, and concrete. Capital costs are specifically linked to the projections for the metals producer price index found in the Macroeconomic Module of NEMS.

Independent of the other two factors, capital costs for all electric generation technologies, including renewable technologies, are assumed to decline as a function of growth in installed capacity for each technology.

For a description of NEMS algorithms lowering generating technologies' capital costs as more units enter service (learning), see "Technological Optimism and Learning" in the EMM chapter of this report. A detailed description of the RFM is provided in the EIA publication, *Renewable Fuels Module of the National Energy Modeling System, Model Documentation 2009*, DOE/EIA-M069(2009) (Washington, DC, 2009).

## Solar Electric Submodule

### Background

The Solar Electric Submodule currently includes both concentrating solar power (thermal) and photovoltaics, including two solar technologies: 50 megawatt central receiver (power tower) solar thermal (ST) and 5 megawatt single axis tracking-flat plate photovoltaic (PV) technologies. PV is assumed available in all thirteen EMM regions, while ST is available only in the six Western regions with the arid atmospheric conditions that result in the most cost-effective capture of direct sunlight. Capital costs for both technologies are determined by EIA using multiple sources, including public reports of recent solar thermal capacity additions. Most other cost and performance characteristics for ST are obtained or derived from the August 6, 1993, California Energy Commission memorandum, *Technology Characterization for ER 94*; and, for PV, from the Electric Power Research Institute, *Technical Assessment Guide (TAG) 1993*. In addition, capacity factors are obtained from information provided by the National Renewable Energy Laboratory (NREL).

### Assumptions

- Capacity factors for solar technologies are assumed to vary by time of day and season of the year, such that nine separate capacity factors are provided for each modeled region, three for time of day and for each of three broad seasonal groups (summer, winter, and spring/fall). Regional capacity factors vary from national averages. The current reference case solar thermal annual capacity factor for California, for example, is assumed to average 40 percent; California's current reference case PV capacity factor is assumed to average 24.6 percent.

- Because solar technologies are more expensive than other utility grid-connected technologies, early penetration will be driven by broader economic decisions such as the desire to become familiar with a new technology, environmental considerations, and the availability of limited Federal subsidies. Minimal early years' penetration is included by EIA as "floor" additions to new generating capacity (see "Supplemental and Floor Capacity Additions" below).

- Solar resources are well in excess of conceivable demand for new capacity; energy supplies are considered unlimited within regions (at specified daily, seasonal, and regional capacity factors). Therefore, solar resources are not estimated in NEMS. In the seven regions where ST technology is not modeled, the level of direct, normal insolation (the kind needed for that technology) is assumed to be insufficient to make that technology commercially viable through 2030.

- NEMS represents the Energy Policy Act of 1992 (EPACT92) permanent 10-percent investment tax credit (ITC) for solar electric power generation by tax-paying entities. In addition, the current 30-percent ITC scheduled to expire at the end of 2016, is also represented to qualifying new capacity installations.

## Wind-Electric Power Submodule

### Background

Because of limits to windy land areas, wind is considered a finite resource, so the submodule calculates maximum available capacity by Electricity Market Module Supply Regions. The minimum economically viable average wind speed is about 14 mph, and wind speeds are categorized by annual average wind speed based on a classification system originally from the Pacific Northwest Laboratory. The RFM tracks wind capacity (megawatts) by resource quality, and costs within a region and moves to the next best wind resource when one category is exhausted. Wind resource data on the amount and quality of wind per EMM region come from the National Renewable Energy Laboratory [2] The technological performance, cost, and other wind data used in NEMS are derived by EIA from available data and from available literature.[3] Maximum wind capacity, capacity factors, and incentives are provided to the EMM for capacity planning and dispatch decisions. These form the basis on which the EMM decides how much power generation capacity is available from wind energy. The fossil-fuel heat rate equivalents for wind are used for energy consumption calculation purposes only.

### Assumptions

- Only grid-connected (utility and nonutility) generation is included. Projections for distributed wind generation are included in the commercial and residential modules.

- In the wind submodule, wind supply costs are affected by three modeling measures: addressing (1) average wind speed, (2) distance from existing transmission lines, and (3) resource degradation, transmission network upgrade costs, and market factors.

- Available wind resource is reduced by excluding all windy lands not suited for the installation of wind turbines because of: excessive terrain slope (greater than 20 percent); reservation of land for non-intrusive uses (such as National Parks, wildlife refuges, and so forth); inherent incompatibility with existing land uses (such as urban areas, areas surrounding airports and water bodies, including offshore locations); insufficient contiguous windy land to support a viable wind plant (less than 5 square kilometers of windy land in a 100 square kilometer area). Half of the wind resource located on military reservations, U.S. Forest Service land, state forested land, and all non-ridge-crest forest areas are excluded from the available resource base to account for the uncertain ability to site projects at such locations. These assumptions are detailed in the Draft Final Report to EIA on *Incorporation of Existing Validated Wind Data into NEMS*, November 2003.

- Capital costs for wind technologies are assumed to increase in response to (1) declining natural resource quality, such as terrain slope, terrain roughness, terrain accessibility, wind turbulence, wind variability, or other natural resource factors, as the best sites are utilized (2) increasing cost of upgrading existing local and network distribution and transmission lines to accommodate growing quantities of remote wind power, and (3) market conditions, such as the increasing costs of alternative land uses, including aesthetic or environmental reasons. Capital costs are left unchanged for some initial share, then increased 20, 50, 100 percent, and finally 200 percent, to represent the aggregation of these factors.

- Proportions of total wind resources in each category vary by EMM region. For all thirteen EMM regions combined, 1.3 percent of windy land is available with no cost increase, 5.4 percent is available with a 20 percent cost increase, 11.2 percent is available with a 50 percent cost increase, 27.3 percent is available with a 100 percent cost increase, and almost 54.8 percent of windy land is assumed to be available with a 200 percent cost increase.

- Depending on the EMM region, the cost of competing fuels, and other factors, wind plants can be built to meet system capacity requirements or as a "fuel saver" to displace generation from existing capacity. For wind to penetrate as a fuel saver, its total capital and fixed operations and maintenance costs minus applicable subsidies must be less than the variable operating costs, including fuel, of the existing (non-wind) capacity. When competing in the new capacity market, wind is assigned a capacity credit that declines based on its estimated contribution to regional reliability requirements.

- Because of downwind turbulence and other aerodynamic effects, the model assumes an average spacing between turbine rows of 5 rotor diameters and a lateral spacing between turbines of 10 rotor diameters. This spacing requirement determines the amount of power that can be generated from wind resources, about 6.5 megawatts per square kilometer of windy land, and is factored into requests for generating capacity by the EMM.

- Capacity factors are assumed to increase to a 46 percent in the best wind class resulting from taller towers, more reliable equipment, and advanced technologies. Capacity factors for each wind class are calculated as a function of overall wind market growth. The capacity factors are assumed to be limited to about 48 percent for an average Class 6 site. As better wind resources are depleted, capacity factors are assumed to go down. By 2035, the typical wind plant build will have a somewhat lower capacity factor than those found in the best wind resource area.

- *AEO2010* does not allow plants constructed after 2012 to claim the Federal Production Tax Credit (PTC), a 2 cent per kilowatt-hour tax incentive that is set to expire on December 31, 2012. Wind plants are assumed to depreciate capital expenses using the Modified Accelerated Cost Recovery Schedule with a 5-year tax life.

Offshore wind resources are represented as a separate technology from onshore wind resources. Offshore resources are modeled with a similar model structure as onshore wind. However, because of the unique challenges of offshore construction and the somewhat different resource quality, the assumptions with regard to capital cost, learning-by-doing cost reductions, and variation of resource exploitation costs and performance differ significantly from onshore wind.

- Like onshore resources, offshore resources are assumed to have an upwardly sloping supply curve, in part influenced by the same factors that determine the onshore supply curve (such as distance to load centers, environmental or aesthetic concerns, variable terrain/seabed) but also explicitly by water depth.

- Because of the more difficult maintenance challenge offshore, performance for given annual average wind power density level is assumed to be somewhat reduced by reduced turbine availability. Offsetting this, however, is the availability of resource areas with higher overall power density than is assumed available onshore. Capacity factors for offshore are limited to be about 50 percent for a Class 7 site.

- Cost reductions in the offshore technology result in part from learning reductions in onshore wind technology as well as from cost reductions unique to offshore installations, such as foundation design and construction techniques. Because offshore technology is significantly less mature than onshore wind technology, offshore-specific technology learning occurs at a somewhat faster rate than on-shore technology.

## *Geothermal-Electric Power Submodule*

## *Background*

The Geothermal-Electric Submodule (GES) estimates the generating capacity and output potential of 89 hydrothermal sites in the Western United States. This estimation is based on two studies: *New Geothermal Site Identification and Qualification*, prepared by GeothermEx, Inc for the California Public Utility Commission, and *Western Governors' Association Geothermal Task Force Report*, which was co-authored by several geothermal experts from the public and private sectors. These studies focus on geothermal resources with confirmed temperatures greater than 100 Celsius, which is generally considered the threshold for economically feasible conventional development. While EIA had previously distinguished between binary and dual flash technologies, this is no longer an essential component of cost estimates. Instead, these studies incorporate expected power plant cost and performance based on each confirmed resource temperature. This enables greater projection precision relative to a static choice between two technologies. All plants are assumed to operate at 90 percent capacity factor. Enhanced Geothermal Systems (EGS), such as hot dry rock, are not included as potential resources since this technology is still in development and is not expected to be in significant commercial use within the projection horizon. As part of EPACT 2005, the U.S. Geological Survey recently completed its comprehensive review of all domestic

hydrothermal resources. While the final data show overall capacity estimates similar to the ones presented in the above-mentioned studies, there are undoubtedly distinctions in individual site characterizations and methods used for estimating capacity. Although the final aggregate data has been released, the assumptions and individual site estimates have not.

The two studies off of which EIA estimates are based maintain separate capital cost components for each site's development. The GeothermEx study divided individual site costs into four components: exploration, confirmation, development, and transmission. Site exploration is a small component of aggregate costs, oftentimes being zero. Confirmation and transmission costs may be significant, however the vast majority of capital costs are classified under site development which includes power plant construction. The WGA report, which was used to estimate geothermal potential outside of the GeothermEx database region, did not provide site specific, separate capital cost components. However, it did provide some sites with two levels of capital costs, meaning a portion of the resource could be developed at a lower cost than the remaining potential. Therefore, EIA maintained two categories of site specific capital development costs, with a cost premium placed on some sites beyond their most economic resource. Site specific operation and maintenance costs are also included in the submodule. As a result of revised supply estimations, the annual site build limit has been relaxed to 50mw of new capacity per site per year.

## Assumptions

- Existing and identified planned capacity data are obtained directly by the EMM from Forms EIA-860A (utilities) and EIA-860B (nonutilities) and from supplemental additions (See Below).

- The permanent investment tax credit of 10 percent available in all projection years based on the EPACT applies to all geothermal capital costs, except through December 2013 when the 2-cent production tax credit is available to this technology and is assumed chosen instead.

- Plants are not assumed to retire unless their retirement is reported to EIA. Geysers units are not assumed to retire but instead are assigned the 35 percent capacity factors reported to EIA reflecting their reduced performance in recent years.

- Capital and operating costs vary by site and year; values shown in Table 8.3 in the EMM chapter are indicative of those used by EMM for geothermal build and dispatch decisions.

## Biomass Electric Power Submodule

### Background

Biomass consumed for electricity generation is modeled in two parts in NEMS. Capacity in the wood products and paper industries, the so-called captive capacity, is included in the industrial sector module as cogeneration. Generation by the electricity sector is represented in the EMM, with capital and operating costs and capacity factors as shown in Table 8.2 in the EMM chapter, as well as fuel costs, being passed to the EMM where it competes with other sources. Fuel costs are provided in sets of regional supply schedules. Projections for ethanol are produced by the Petroleum Market Module (PMM), with the quantities of biomass consumed for ethanol decremented from, and prices obtained from, the EMM regional supply schedules.

### Assumptions

- Existing and planned capacity data are obtained from Form EIA-860.

- The conversion technology represented, upon which the costs in Table 8.3 in the EMM chapter are based, is an advanced gasification-combined cycle plant that is similar to a coal-fired gasifier. Costs in the reference case were developed by EIA to be consistent with coal gasifier costs. Short-term cost adjustment factors are used.

- Biomass cofiring can occur up to a maximum of 15 percent of fuel used in coal-fired generating plants.

Fuel supply schedules are a composite of four fuel types: forestry materials, wood residues, agricultural residues and energy crops. Energy crop data are presented in yearly schedules from 2010 to 2035 in combination with the other material types for each region. The forestry materials component is made up of logging residues, rough rotten salvageable dead wood, and excess small pole trees. [4] The wood residue component consists of primary mill residues, silvicultural trimmings, and urban wood such as pallets, construction waste, and demolition debris that are not otherwise used. [5] Agricultural residues are wheat straw, corn stover, and a number of other major agricultural crops. [6] Energy crop data are for hybrid poplar, willow, and switchgrass grown on crop land, pasture land, or on Conservation Reserve Program lands. In AEO2009, agricultural residues and energy crops are combined into a single "agricultural sector." [7] The maximum amount of resources in each supply category is shown in Table 13.3.

## Landfill-Gas-to-Electricity Submodule

### Background

Landfill-gas-to-electricity capacity competes with other technologies using supply curves that are based on the amount of "high", "low", and "very low" methane producing landfills located in each EMM region. An average cost-of-electricity for each type of landfill is calculated using gas collection system and electricity generator costs and characteristics developed by EPA's "Energy Project Landfill Gas Utilization Software" (E-PLUS). [8]

### Assumptions

- Gross domestic product (GDP) and population are used as the drivers in an econometric equation that establishes the supply of landfill gas.

- Recycling is assumed to account for 35 percent of the total waste stream by 2005 and 50 percent by 2010 (consistent with EPA's recycling goals).

- The waste stream is characterized into three categories: readily, moderately, and slowly decomposable material.

- Emission parameters are the same as those used in calculating historical methane emissions in the EIA's *Emissions of Greenhouse Gases in the United States 2003.* [9]

- The ratio of "high", "low", and "very low" methane production sites to total methane production is calculated from data obtained for 156 operating landfills contained in the Government Advisory Associates METH2000 database. [10]

- Cost-of-electricity for each site was calculated by assuming each site to be a 100-acre by 50-foot deep landfill and by applying methane emission factors for "high", "low", and "very low" methane emitting wastes.

### Conventional Hydroelectricity

The conventional hydroelectricity submodule represents U.S. potential for new conventional hydroelectric capacity 1 megawatt or greater from new dams, existing dams without hydroelectricity, and from adding capacity at existing hydroelectric dams. Summary hydroelectric potential is derived from reported lists of potential new sites assembled from Federal Energy Regulatory Commission (FERC) license applications and other survey information, plus estimates of capital and other costs prepared by the Idaho National Engineering and Environmental Laboratory (INEEL). [11] Annual performance estimates (capacity factors) were taken from the generally lower but site specific FERC estimates rather than from the general estimates prepared by INEEL, and only sites with estimated costs 10 cents per kilowatthour or lower are included in the supply. Pumped storage hydro, considered a nonrenewable storage medium for fossil and nuclear power, is not included in the supply; moreover, the supply does not consider offshore or in-stream hydro, efficiency or operational improvements without capital additions, or additional potential from refurbishing existing hydroelectric capacity.

In the hydroelectricity submodule, sites are first arrayed by NEMS region from least to highest cost per kilowatthour. For any year's capacity decisions, only those hydroelectric sites whose estimated levelized costs per kilowatthour are equal to or less than an EMM determined avoided cost (the least cost of other

**Table 13.3. 2020 Maximum U.S. Biomass Resources, by Coal Demand Region and Type**
(Trillion Btu)

| Coal Demand Region | States | Agricultural Sector | Forestry Residue | Urban Wood Waste/Mill Residue | Total[1] |
|---|---|---|---|---|---|
| 1 | CT, MA, ME, NH, RI, VT | 165 | 158 | 15 | 339 |
| 2 | NY, PA, NJ | 277 | 167 | 59 | 503 |
| 3 | WV, MD, DC, DE, VA, NC, SC | 436 | 426 | 56 | 918 |
| 4 | GA, FL | 239 | 265 | 47 | 551 |
| 5 | OH | 348 | 37 | 16 | 402 |
| 6 | IN, IL, MI, WI | 1209 | 190 | 47 | 1,446 |
| 7 | KY, TN | 497 | 152 | 30 | 679 |
| 8 | AL, MS | 357 | 326 | 19 | 702 |
| 9 | MN, IA, ND, SD, NE, MO, KS | 2294 | 155 | 28 | 2,477 |
| 10 | TX, LA, OK, AR | 728 | 378 | 57 | 1,163 |
| 11 | MT, WY, ID | 197 | 100 | 25 | 322 |
| 12 | CO, UT, NV | 209 | 70 | 7 | 285 |
| 13 | AZ, NM | 168 | 45 | 7 | 220 |
| 14 | AK, HI, WA, OR, CA | 226 | 429 | 83 | 738 |

[1]May include rounding error.

Sources: Urban Wood Wastes: Antares Group Inc., *Biomass Residue Supply Curves for the U.S (updated),* prepared for the National Renewable Energy Laboratory, June 1999; Agricultural residues, energy crops, and forestry residues from the University of Tennessee Department of Agricultural Economics POLYSIS model, May 2008.

technology choices determined in the previous decision cycle) are submitted. Next, the array of below-avoided cost sites is parceled into three increasing cost groups, with each group characterized by the average capacity-weighted cost and performance of its component sites. Finally, the EMM receives from the conventional hydroelectricity submodule the three increasing-cost quantities of potential capacity for each region, providing the number of megawatts potential along with their capacity-weighted average overnight capital cost, operations and maintenance cost, and average capacity factor. After choosing from the supply, the EMM informs the hydroelectricity submodule, which decrements available regional potential in preparation for the next capacity decision cycle.

# Legislation and Regulations

## *Energy Policy Act of 1992 (EPACT92) and 2005 (EPACT05)*

The RFM includes the investment and energy production tax credits codified in the Energy Policy Act of 1992 (EPACT 92) as amended. The investment tax credit established by EPACT 92 provides a credit to Federal income tax liability worth 10 percent of initial investment cost for a solar, geothermal, or qualifying biomass facility. This credit was raised to 30 percent through 2016 for some solar projects and extended to residential projects. This change is reflected in the utility, commercial and residential modules. The production tax credit, as established by EPACT 92, applied to wind and certain biomass facilities. As amended, it provides a 2.1 cent tax credit for every kilowatt-hour of electricity produced for the first 10 years of operation for a wind facility constructed by December 31, 2012 or by December 31, 2013 for other eligible facilities. The value of the credit, originally 1.5 cents, is adjusted annually for inflation. With the various amendments, the production tax credit is available for electricity produced from qualifying geothermal, animal waste, certain small-scale hydroelectric, landfill gas, municipal solid waste, and additional biomass resources. Wind, poultry litter and geothermal, and "closed loop" [12] biomass resources receive a 2.1 cent tax credit for the

first 10 years of facility operations.  All other renewable resources receive a 1 cent tax credit for the first 10 years of facility operations. EIA assumes that biiomass facilities obtaining the PTC will use "open-loop" fuels, as "closed-loop" fuels are assumed to be unavailable and/or too expensive for widespread use during the period that the tax credit is available. The investment and production tax credits are exclusive of one another, and may not both be claimed for the same geothermal facility (which is eligible to receive either).

# Alternative Renewable Cases

## *Renewable Technology Cases*

Two cases examine the effect on energy supply using alternative assumptions for cost and performance of non-hyrdo, non-landfill gas renewable energy technologies.  The High Renewable Cost case examines the effect if technology costs were to remain at current levels. The Low Renewable Cost case examines the effect if technology energy costs were reduced by 2035 to 25 percent below Reference case values with an initial reduction of 10%.

The High Renewable Cost case does not allow "learning-by-doing" effects to reduce the capital cost of biomass, geothermal, solar, or wind technologies or to improve wind capacity factor beyond 2010 levels. The construction of the first four units of biomass integrated gasification combined cycle units are still assumed to reduce the technological optimism factor associated with this technology.  Although the cost of biomass fuels is assumed to remain the same in this case as in the Reference case, this case assumes that no energy crops will be available through 2035, consistent with the "frozen technology" assumptions for the other technologies. All other parameters remain the same as in the Reference case.

The Low Renewable Cost case assumes that the non-hydro, non-landfill gas renewable technologies are able to reduce their overall cost-of-energy produced in 2035 by 25 percent from the Reference case. Because the cost of supply of renewable resources is assumed to increase with increasing utilization (that is, the renewable resource supply curves are upwardly sloping), the cost reduction is achieved by targeting the reduction on the "marginal" unit of supply for each technology in 2035 for the Reference case (that is, the next resource available to be utilized in the Reference case in 2030).  This has the effect of reducing costs for the entire supply (that is, shifting the supply curve downward by 25 percent).  As a result of the overall reduction in costs, more supply may be utilized, and a unit from higher on the supply curve may result in being the marginal unit of supply.  Thus the actual market-clearing cost-of-energy for a given renewable technology may not differ by much from the Reference case, although that resource contributes more energy supply than in the Reference case. These cost reductions are achieved gradually through "learning-by-doing", and are only fully realized by 2030.

For wind, biomass, geothermal, and solar technologies, this cost reduction is achieved by a reduction in overnight capital costs sufficient to achieve the targeted reduction in cost-of-energy.  As a result, the supply of biomass fuel is increased at every price level.  For geothermal, the capital cost of the lowest-cost site available in the year 2010  is reduced such that if it were available for construction in 2035, it would have a 25 percent lower cost-of-energy in the High Renewable case than the cost-of-energy it would have in 2035 were it available for construction in the Reference case.  For solar technologies (both photovoltaic and solar thermal power), the resource is assumed to be unlimited and the reductions in cost-of-energy are achieved strictly through capital cost reduction. Biomass prices is assumed to be reduced 25 percent by 2035 for a given quantity of fuel supplied. Other assumptions within NEMS are unchanged from the Reference case.

For the Low Renewable Cost case, demand-side improvements are also assumed in the renewable energy technology portions of residential and commercial buildings, industrial processes, and refinery fuels modules.  Details on these assumptions can be found in the corresponding sections of this report.

# State RPS Programs

EIA represents various state-level policies generally referred to as Renewable Portfolio Standards (RPS). These policies vary significantly among states, but typically require the addition of renewable generation to meet a specified share of state-wide generation. Any non-discretionary limitations on meeting the generation or capacity target are modeled to the extent possible. However, because of the complexity of the various requirements, the regional target aggregation (described below), and nature of some of the limitations (also described below), measurement of compliance is assumed to be approximate.

Regional renewable generation targets were estimated using the renewable generation targets in each state within the region. In many cases, regional boundaries intersect state boundaries; in these cases states were assigned to be within a single region, based on EIA expert judgment of factors such as predominant load locations and location of renewable resources eligible for that state's RPS program. Using state-level RPS compliance schedules and preliminary estimates of projected sales growth, EIA estimated the amount of renewable generation required in each state within a region. Required generation in each state was then summed to the regional level for each year, and a regional renewable generation share of total sales was determined, as shown in Table 13.4.

Only targets with established enforcement provisions or established state funding mechanisms were included in the calculation; goals, provisional RPS requirements, or requirements lacking established funding were not included. The California and New York programs require state funding, and these programs are assumed to be complied with only to the extent that state funding allows. Compliance enforcement provisions vary significantly among states and most states have established procedures for waiving compliance through the use of "alternative compliance" payments, penalty payments, discretionary regulatory waivers, or retail price impact limits. Because of the variety of mechanisms, even within a given electricity market region, these limits are not modeled.

**Table 13.4. Aggregate Regional RPS Requirements**

| Region[1] | 2015 | 2025 | 2035 |
|---|---|---|---|
| ECAR | 3.0% | 5.7% | 5.7% |
| ERCOT | 5.0% | 5.0% | 5.0% |
| MAAC | 10.1% | 15.4% | 15.4% |
| MAIN | 6.7% | 15.3% | 15.3% |
| MAPP | 8.5% | 11.1% | 11.1% |
| NY | 18.3% | 18.3% | 18.3% |
| NE | 9.6% | 13.8% | 13.8% |
| FL | 0.0% | 0.0% | 0.0% |
| STV | 0.9% | 1.9% | 1.9% |
| SPP | 1.9% | 3.8% | 3.8% |
| NWP | 7.3% | 13.7% | 13.7% |
| RA | 4.2% | 6.9% | 6.9% |
| CNV | 18.7% | 20.0% | 20.0% |

[1] See chapter on the electricity Market Module for a map of the electricity regions

# Notes and Sources

[1] For a comprehensive description of each submodule, see Energy Information Administration, Office of Integrated Analysis and Forecasting, Model Documentation, Renewable Fuels Module of the National Energy Modeling System, DOE/EIA-M069(2005), (Washington, DC, March 2005).

[2] *Revising the Long Term Multipliers in NEMS: Quantifying the Incremental Transmission Costs Due to Wind Power*, Report to EIA from Princeton Energy Resources International, LLC. May 2007.

[3] Wiser, Ryan and Mark Bollinger. Annual Report on U.S. Wind Power Installation, Cost, and Performance Trends: 2006. U.S. Department of Energy, Office of Energy Efficiency and Reneweable Energy. May 2007.

[4] United States Department of Agriculture, U.S. Forest Service, "Forest Resources of the United States, 1992", General Technical Report RM-234, (Fort Collins CO, June 1994).

[5] Antares Group Inc., "Biomass Residue Supply Curves for the U.S (updated)", prepared for the National Renewable Energy Laboratory, June 1999.

[6] Walsh, M.E., et.al., Oak Ridge National Laboratory, "The Economic Impacts of Bioenergy Crop Production on U.S. Agriculture", (Oak Ridge, TN, May 2000), http://bioenergy.ornl.gov/papers/wagin/index.html.

[7] Graham, R.L., et.al., Oak Ridge National Laboratory, "The Oak Ridge Energy Crop County Level Database", (Oak Ridge TN, December, 1996).

[8] U.S. Environmental Protection Agency, Atmospheric Pollution Prevention Division, Energy Project Landfill Gas Utilization Software (E-PLUS) Version 1.0, EPA-430-B-97-006 (Washington, DC, January 1997).

[9] Energy Information Administration, "Emissions of Greenhouse Gases in the United States 2003", DOE/EIA-0573(2003) (Washington, DC, December 2004).

[10] Governmental Advisory Associates, Inc., METH2000 Database, Westport, CT, January 25, 2000.

[11] Douglas G. Hall, Richard T. Hunt, Kelly S. Reeves, and Greg R. Carroll, Idaho National Engineering and Environmental Laboratory, "Estimation of Economic Parameters of U.S. Hydropower Resources" INEEL/EXT-03-00662 (Idaho Falls, Idaho, June 2003).

[12] Closed-loop biomass are crops produced explicitly for energy production. Open-loop biomass are generally wastes or residues that are a byproduct of some other process, such as crops grown for food, forestry, landscaping, or wood milling

# Appendix A: Handling of Federal and Selected State Legislation and Regulation in the Annual Energy Outlook

**Appendix A: Handling of Federal and Selected State Legislation and Regulation in the Annual Energy Outlook**

| Legislation | Brief Description | AEO Handling | Basis |
|---|---|---|---|
| **Residential Sector** | | | |
| A. National Appliance Energy Conservation Act of 1987 | Requires Secretary of Energy to set minimum efficiency standards for 10 appliance categories. | Included for categories represented in the AEO residential sector forecast. | |
| a. Room Air Conditioners | | Current standard of 9.8 EER | Federal Register Notice of Final Rulemaking. |
| b. Other Air Conditioners (<5.4 tons) | | Current standard 10 SEET for central air conditioners and heat pumps, increasing to 13 SEER in 2006. | Federal Register Notice of Final Rulemaking. |
| c. Water Heaters | | Electric: Current standard .90 EF.  Gas: Current standard .59 EF. | Federal Register Notice of Final Rulemaking. |
| d. Refrigerators/Freezers kWh/yr | | Current standard of .51 | Federal Register Notice of Final Rulemaking. |
| e. Dishwashers | | Current standard of .46 EF. | Federal Register Notice of Final Rulemaking. |
| f. Fluorescent Lamp Ballasts | | Current standard of .90 power factor | Federal Register Notice of Final Rulemaking. |
| g. Clothes Washers | | Current standard of 1.18 EF, increasing to 1.04 MEF in 2004, further increasing to 1.26 MEF in 2007. | Federal Register Notice of Final Rulemaking. |
| h. Furnaces | | Standard set at 80 AFUE for gas and oil furnaces. | Federal Register Notice of Final Rulemaking. |
| i. Clothes Dryers | | Gas: Current standard 2.67 EF. Electric: Current standard 3.01 EF.  The increase in MEF for clothes washers further increases the de facto standard for clothes dryers due to better extraction of water from clothes in washing process. | Federal Register Notice of Final Rulemaking. |
| B. Energy Policy Act of 1992  (EPACT92) | | | |
| a. Building Codes | For the IECC 2006, specifies whole house efficiency minimums. | Assumes that all States adopt the IECC 2006 code by 2017. | Trend of States adoption to codes, allowing for lead times for enforcement and builder compliance. |
| b. Energy-Efficient Mortgages | Allow homeowners to qualify for higher loan amounts if the home is energy-efficient, as scored by HERS. | Efficiency of equipment represented in technology choice parameters.  Efficiency of shell represented in HVAC choice. | No way to separate out these purchases from others. Assumes historical effect in the forecast, with cost-reducing learning in the shell portion of HVAC choice. |
| C. Energy Policy Act of 2005  (EPACT05) | | | |
| a. Torchiere Lamp Standard | | Sets 190 watt bulb limit in 2006. | EPACT05. |
| b. Ceiling Fan Light Kit Standard | Ceiling fans must be shipped with compact fluorescent bulbs or use no more than 190 watts per fixture in 2007. | Reduce lighting electricity consumption by appropriate amount. | Number of ceiling fan shipments and estimated kWh savings per unit determine overall savings. |

| Legislation | Brief Description | AEO Handling | Basis |
|---|---|---|---|
| c. Dehumidifier Standard | Sets standard for dehumidifiers in 2007 and 2012. | Reduce miscellaneous electricity consumption by appropriate amount. | Number of dehumidifier shipments and estimated kWh savings per unit determine overall savings. |
| d. Energy-Efficient Equipment Tax Credit | Purchasers of certain energy-efficient equipment can claim tax credits in 2006 and 2007. | Reduce cost of applicable equipment by specified amount. | EPACT05. |
| e. New Home Tax Credit | Builders receive $1000 or $2000 tax credit if they build homes 30 or 50 percent better than code in 2006 and 2007. | Reduce shell package cost for these homes by specified amount. | Cost reductions to consumers are assumed to be 100 percent of the builder's tax credit. |
| f. Energy-Efficient Appliance Tax Credit | Producers of energy-efficient refrigerators, dishwashers, and clothes washers receive tax credits for each unit they produce that meets certain efficiency specifications. | Assume the cost savings are passed on to the consumer, reducing the price of the appliance by the specified amount. | Cost reductions to consumers are assumed to be 100 percent of the producer's tax credit. |
| D. Energy Independence and Security Act of 2007 (EISA 2007) | | | |
| a. General Service Incandescent Lamp Standard | Require less wattage for bulbs in 2012-2014 and 2020. | reduce wattage for new bulbs by 28 percent in 2013 and 67 percent in 2020. | EISA 2007 |
| b. Dehumidifier Standard | Updates EPACT 2005 standard. | Reduce miscellaneous electricity consumption by appropriate amount. | Increase savings estimated for EPACT 2005 by appropriate amount. |
| c. Boiler Standard | Sets standards for boilers in 2013. | Require new purchases of boilers to meet the standard. | EISA 2007 |
| d. Dishwasher Standard | Sets standards for dishwashers in 2010. | Require new purchases of dishwashers to meet the standard by 2010. | EISA 2007 |
| e. External Power Supply Standard | Sets standards for external power supplies in 2008 | Reduce miscellaneous electricity consumption by appropriate amount. | Number of shipments and estimated kWh savings per unit determine overall savings. |
| f. Manufactured Housing Code | Require manufactured homes to meet latest IECC in 2011. | Require that all manufactured homes shipped after 2011 meet the IECC 2006 | EISA 2007 |
| E. Energy Improvement and Extension Act of 2008 (EIEA 2008) | | | |
| a. Energy-Efficient Equipment Tax Credit | Purchasers of certain energy-efficient equipment can claim tax credits through 2016 | Reduce the cost of applicable equipment by specified amount | EIEA 2008 |
| b. Energy-Efficient Appliance Tax Credit | Producers of energy-efficient refrigerators, clothes washers, and dishwashers receive tax credits for each unit they produce that meets certain efficiency specifications, subject to an annual cap. | Assume the cost savings are passed on to the consumer, reducing the price of the appliance by the specified amount. | Cost reductions to consumers are assumed to be 100% of the producer's tax credit. |
| F. American Recovery and Reinvestment Act of 2009 | | | |
| a. Energy-Efficient Equipment Tax Credit | Increases cap to $1500 of energy efficient equipment specified under Section C(d) above. Removes cap for PV, wind, and ground-source heat pumps | Reduce the cost of applicable equipment by specified amount. | EPACT 2005 and ARRA 2009 |
| b. Weatherization and State Energy Programs | Increases funding for weatherization and other programs to increase the energy efficiency of existing housing stock. | Apply annual funding amount to existing housing retrofits. Savings for heating and cooling based on $2600 per home investment as specified in weatherization program evaluation. | ARRA 2009 |

| Legislation | Brief Description | AEO Handling | Basis |
|---|---|---|---|
| **Commercial Sector** | | | |
| A. National Appliance Energy Conservation Act of 1987 | Requires Secretary of Energy to set minimum efficiency standards for 10 appliance categories. | Included for categories represented in the AEO commercial sector forecast. | |
| a. Room Air Conditioners | | Current standard of 9.8 EER | Federal Register Notice of Final Rulemaking. |
| b. Other Residential-size Air Conditioners (<5.4 tons) | | Current standard 10 SEER for central air conditioning and heat pumps, increasing to 13 SEER in 2006. | Federal Register Notice of Final Rulemaking. |
| c. Fluorescent Lamp Ballasts | | Current standard if .90 power factor and minimum efficacy factor for F40 and F96 lamps based on lamp size and wattage, increasing to higher efficacy factor in 2005 that limits purchases to electronic ballasts. | Federal Register Notice of Final Rulemaking. |
| B. Energy Policy Act of 1992 (EPACT92) | | | |
| a. Buildings Codes | | Incorporated in commercial building shell assumptions. Efficiency of new relative to existing shell represented in shell efficiency indices. Assume shell efficiency improves 5 and 7 percent by 2030 for existing buildings and new construction, respectively. | Based on Science Applications International Corporation commercial shell indices for 2003 developed for EIA in 2008. |
| b. Window labeling | Designed to help consumers determine which windows are more energy efficient. | Incorporated in commercial building shell assumptions. Efficiency of new relative to existing shell represented I shell efficiency indices. Assume shell efficiency improves 5 and 7 percent by 2030 for existing buildings and new construction, respectively. | Based on Science Applications International Corporation commercial shell indices for 2003 developed for EIA in 2008. |
| c. Commercial Furnaces and Boilers | | Gas-fired furnaces and boilers: Current standard is 0.80 thermal efficiency. Oil furnaces and boilers: Current standard is 0.81 thermal efficiency for furnaces, 0.83 thermal efficiency for boilers. | Public Law 102-486: EPACT92. Federal Register Notice of Final Rulemaking. |
| d. Commercial Air Conditioners and Heat Pumps | | Air-cooled air conditioners and heat pumps less than 135,000 Btu: Current standard of 8.9 EER. Air-cooled air conditioners and heat pumps greater than 135,000 Btu: Current standard of 8.5 EER. | Public Law 102-486: EPACT92. |
| e. Commercial Water Heaters | | Natural gas and oil: EPACT standard .78 thermal efficiency increasing to .80 thermal efficiency for gas units in 2003. | Public Law 102-486: EPACT92. Federal Register Notice of Final Rulemaking. |
| f. Lamps | | Incandescent: Current standard 16.9 lumens per watt. Fluorescent: Current standard 75 and 80 lumens per watt for 4 and 8 foot lamps, respectively. | |

| Legislation | Brief Description | AEO Handling | Basis |
|---|---|---|---|
| g.  Electric Motors | Specifies minimum efficiency levels for a variety of motor types and sizes. | End-use services modeled at the equipment level.  Motors contained in new equipment must meet the standards. | Public Law 102-486: EPACT92. |
| h.  Federal Energy Management | Requires Federal agencies to reduce energy consumption 20 percent by 2000 relative to 1985. | Superseded by Executive Order 13123, EPACT05, and EISA07. | Superseded by Executive Order 13123. |
| I.  Business Investment Energy Credit | Provides a permanent 10 percent investment tax credit for solar property. | Tax credit incorporated in cash flow for solar generation systems.  Investment cost reduced 10 percent for solar water heaters. | Public Law 102-486: EPACT92. |
| C.  Executive Order 13123, "Greening the Government Through Efficient Energy Management | Requires Federal agencies to reduce energy consumption 30 percent by 2005 and 35 percent by 2010 relative to 1985 through life-cycle cost-effective energy measures. | Superseded by EPACT05 and EISA07. | Superseded by EPACT05 and EISA07. |
| D.  Energy Policy Act of 2005 (EPACT05) | | | |
| a.  Commercial Package Air Conditioners and Heat Pumps | Sets minimum efficiency levels in 2010. | Air-cooled air conditioners/heat pumps less than 135,000 Btu: standard of 11.2/11.0 EER and heating COP of 3.3.  Air-cooled air conditioners/heat pumps greater than 135,000 Btu: standard of 11.0/10/6 EER and heating COP of 3.2. | Public Law 109-58: EPACT05. |
| b.  Commercial Refrigerators, Freezers, and Automatic Icemakers | Sets minimum efficiency levels in 2010 based on volume. | Set standard by level of improvement above stock average efficiency in 2003. | Public Law 109-58: EPACT05. |
| c.  Lamp Ballasts | Bans manufacture or import of mercury vapor lamp ballasts in 2008.  Sets minimum efficacy levels fir T12 energy saver ballasts in 2009 and 2010 based on application. | Remove mercury vapor lighting system from technology choice menu in 2008.  Set minimum efficacy of T12 ballasts at specified standard levels. | Public Law 109-58: EPACT05. |
| d.  Compact Fluorescent Lamps | Sets standard for medium base lamps at Energy Star requirements in 2006. | Set efficacy level of compact fluorescent lamps at required level. | Public Law 109-58: EPACT05. |
| e.  Illuminated Exit Signs and Traffic Signals | Set standards at Energy Star requirements in 2006. | Reduce miscellaneous electricity consumption by appropriate amount. | Number of shipments, share of shipments that currently meet standard, and estimated kWh savings per unit determine overall savings. |
| f.  Distribution Transformers | Sets standard as National Electrical Manufacturers Association Class I Efficiency levels in 2007. | Effects of the standard are included in estimating the share of miscellaneous electricity consumption attributable to transformer losses. | Public Law 109-58: EPACT05. |
| g.  Prerinse Spray Valves | Sets maximum flow rate to 1.6 gallons per minute in 2006. | Reduce energy use for water heating by appropriate amount. | Number of shipments, share of shipments that currently meet standard, and estimated kWh savings per unit determine overall savings. |

| Legislation | Brief Description | AEO Handling | Basis |
|---|---|---|---|
| h. Federal Energy Management | Requires Federal agencies to reduce energy consumption 20 percent by 2015 relative to 2003 through life-cycle cost-effective energy measures. | The Federal "share" of the commercial sector uses the 10 year treasury bond rate as a discount rate in equipment purchase decisions as opposed to adding risk premiums to the 10 year treasury bond rate to develop discount rates for other commercial decisions. | Public Law 109-58: EPACT05. Superseded by EISA07. |
| I. Business Investment Tax Credit for Fuel Cells and Microturbines | Provides a 30 percent investment tax credit for fuel cells and a 10 percent investment tax credit for microturbines installed in 2006 through 2008. | Tax credit incorporated in cash flow for fuel cells and microturbines. | Public Law 109-58: EPACT05. Extended through 2008 by Public Law 109-432. Extended through 2016 by EIEA08. |
| j. Business Solar Investment Tax Credit | Provides a 30 percent investment tax credit for solar property installed in 2006 through 2008. | Tax credit incorporated in cash flow for solar generation systems, investment cost reduced 30 percent for solar water heaters. | Public Law 109-58: EPACT05. Extended through 2008 by Public Law 109-432. Extended through 2016 by EIEA08. |
| E. Energy Independence and Security Act of 2007 (EISA07) | | | |
| a. Commercial Walk-in Coolers and Walk-in Freezers | Requires use of specific energy efficiency measures in equipment manufactured in or after 2009. | Set standard by equivalent level of improvement above stock average efficiency in 2003. | Public Law 110-140: EISA97. |
| b. Incandescent and Halogen lamps | Sets maximum allowable wattage based on lumen output starting in 2012. | Remove incandescent and halogen general service lighting systems that do not meet standard from technology choice menu in 2012. | Public Law 110-140: EISA97. |
| c. Metal Halide Lamp Ballasts | Sets minimum efficiency levels for metal halide lamp ballasts starting in 2009. | Remove metal halide lighting systems that do not meet standard from technology choice menu in 2009. Set minimum system efficiency to include specified standard levels for ballasts - ranging from 88 to 94 percent based on ballast type. | Public Law 110-140: EISA97. |
| d. Federal Use of Energy Efficient Lighting | Requires use of energy efficient lighting fixtures and bulbs in Federal buildings to the maximum extent possible starting in 2009. | Increase proportion of sector using 10 year treasury bond rate for lighting purchase decisions to represent all existing and new Federal floorspace in 2009. | Public Law 110-140: EISA97. |
| e. Federal Energy Management | Requires Federal agencies to reduce energy consumption per square foot 30 percent by 2015 relative to 2003 through life-cycle cost-effective energy measures. | The Federal "share" of the commercial sector uses the 10 year treasury bond rate as a discount rate in equipment purchase decisions as opposed to adding risk premiums to the 10 year treasury bond rate to develop discount rates for other commercial decisions. | Public Law 110-140: EISA97. |
| F. Energy Improvement and Extension Act of 2008 (EIEA08) | | | |
| a. Business Solar Investment Tax Credit | Extends the EPACT05 30-percent investment tax credit for solar property through 2016. | Tax credit incorporated in cash flow for solar generation systems, investment cost reduced 30 percent for solar water heaters. | Public Law 110-343: EIEA08. |

| Legislation | Brief Description | AEO Handling | Basis |
|---|---|---|---|
| b.  Business Investment Tax Credit for Fuel Cells and Microturbines | Extends the EPACT05 30-percent investment tax credit for fuel cells and 10-percent investment tax credit for microturbines through 2016. | Tax credit incorporated in cash flow for fuel cells and microturbines. | Public Law 110-343: EIEA08. |
| c. Business Investment Tax Credit for CHP Systems | Provides a 10-percent investment tax credit for CHP systems installed in 2009 through 2016. | Tax credit incorporated in cash flow for CHP systems. | Public Law 110-343: EIEA08. |
| d.  Business Investment Tax Credit for Small Wind Turbines | Provides a 30-percent investment tax credit for wind turbines installed in 2009 through 2016. | Tax credit incorporated in cash flow for wind turbine generation systems. | Public Law 110-343: EIEA08. |
| e.  Business Investment Tax Credit for Geothermal Heat Pumps | Provides a 10-percent investment tax credit for geothermal heat pump systems installed in 2009 through 2016. | Investment cost for geothermal heat pump systems reduced 10 percent. | Public Law 110-343: EIEA08. |
| G. American Recovery and Reinvestment Act of 2009 (ARRA09) | | | |
| a.  Business Investment Tax Credit for Small Wind Turbines | Removes the cap on the EIEA08 30-percent investment tax credit for wind turbines through 2016. | Tax credit incorporated in cash flow for wind turbine generation systems. | Public Law 111-5: ARRA09. |
| b.  Stimulus Funding to Federal Agencies | Provides funding for efficiency improvement in federal buildings and facilities. | Increase the proportion of sector using the 10 year treasury bond rate for purchase decisions to include all existing and new Federal floorspace in years stimulus funding is available to account for new, replacement, and retrofit projects.  Assume some funding is used for solar generation, small wind turbine, and fuel cell installations. | Public Law 111-5: ARRA09. |
| c.  State Energy Program Funding and Energy Efficiency and Conservation Block Grants | Provides grants for state and local governments for energy efficiency and renewable energy purposes. State Energy Program funding conditioned on enactment of new building codes. | Increase the proportion of sector using the 10 hear treasury bond rate for purchase decisions to include all public buildings in years stimulus funding is available.  Increase new building shell efficiency to 10 percent better than 2003 by 2018 for improved building codes.  Assume some funding is used for solar generation and small wind turbine systems. | Public Law 111-5: ARRA09. |
| d.  Funding for Smart Grid Projects | Provides funding for smart grid demonstration projects. | Assume smart grid technologies cause consumers to become more responsive to electricity price changes by increasing the price elasticity of demand for certain end uses. | Public Law 111-5: ARRA09. |

| Legislation | Brief Description | AEO Handling | Basis |
|---|---|---|---|
| **Industrial Sector** | | | |
| **A. Energy Policy Act of 1992 (EPACT92)** | | | |
| a. Motor Efficiency Standards | Specifies minimum efficiency levels for a variety of motor types and sizes. | New motors must meet the standards. | Standard specified in EPACT92. 10 CFR 431. |
| b. Boiler Efficiency Standards | Specifies minimum combustion efficiency for package boilers larger than 300,000 Btu/hr. Natural Gas boilers: 80 percent, oil boilers: 83 percent. | All package boilers are assumed to meet the efficiency standards. While the standards do not apply to field-erected boilers, which are typically used in steam-intensive industries, we assume they meet the standard in the AEO. | Standard specified in EPACT92. 10 CFR 431. |
| **B. Clean Air Act Amendments (CCCA90)** | | | |
| a. Process Emissions | Numerous process emissions requirements for specified industries and/or activities. | Not modeled because they are not directly related to energy projections. | CAAA90, 40 CFR 60. |
| b. Emissions related to hazardous/toxic substances | Numerous emissions requirements relative to hazardous and/or toxic substances. | Not modeled because they are not directly related to energy projections. | CAAA90, 40 CFR 60. |
| c. Industrial SO2 emissions | Sets annual limit for industrial SO2 emissions at 5.6 million tons. If limit is reached, specific regulations could be implemented. | Industrial SO2 emissions are not projected to reach the limit (Source: EPA, National Air Pollutant Emissions Trends: 1990-1998, EPA-454/R-00-002, March 2000, p. 4-3.) | CAAA90, Section 406 (42 USC 7651) |
| d. Industrial boiler hazardous air pollutants | Requires industrial boilers and process heaters to meet emissions limits on HAPs to comply with the Maximum Achievable Control Technology (MACT) floor. | Not explicitly modeled because new boilers are expected to meet the standards in the absence of the rule and retrofit costs should be relatively small. | Environmental Protection Agency, National Emissions Standards for Hazardous Air Pollutants for Industrial, Commercial, and Institutional Boilers and Process Heatrates, 40 CFR Part 63. |
| e. Emissions from stationary diesel engines | Requires engine manufacturers to meet the same emission standards as nonroad diesel engines. Fully effective in 2011. | New stationary engines meet the standards. | 40 CFR Parts 60, 85, 89, 94, 1039, 1065, and 1068. |
| **C. Energy Policy Act of 2005 (EPACT 05)** | | | |
| a. Physical Energy Intensity | Voluntary commitments to reduce physical energy intensity by 2.5 percent annually for 2007-2016. | Not modeled because participation is voluntary; actual reductions will depend on future, unknown commitments. | EPACT2005, Section 106 (42 USC 15811) |
| b. Mineral components of cement of concrete | Increase in mineral component of Federally procured cement or concrete. | Not modeled. | EPACT2005, Section 108 (42 USC 6966). |
| c. Tax credits for coke oven | Provides a tax credit of $3.00 per barrel oil equivalent, limited to 4000 barrels per day average. Applies to most producers of coal coke or coke gas. | Not modeled because no impact on U.S. coke plant activity is anticipated. | EPACT2005, Section 1321 (29 USC 29). |

| Legislation | Brief Description | AEO Handling | Basis |
|---|---|---|---|
| **D.  The Energy Independence and Security Act of 2007** | | | |
| Motor Efficiency Standards | Supersedes EPAct1992 Efficiency Standards no later than 2011 | Motor purchases must meet the EPAct1992 standards through 2010; afterwards purchases must meet the EISA2007 standards | EISA2007 |
| **E.  The Energy Improvement and Extension Act of 2008** | | | |
| Combined heat and power tax incentive | Provides an investment tax credit for combined heat and power systems up to 50 megawatts through 2016 | Costs of systems adjusted to reflect the credit | EIEA2008, Title I, Sec.103 |
| **Transportation Sector** | | | |
| A.  Energy Policy Act of 1992 (EPACT92) | Increases the number of alternative fuel vehicles and alternative fuel use in Federal, State, and fuel provided fleets. | Assumes Federal, State and fuel provider fleets meet the mandated sales requirements. | Energy Policy Act of 1992, Public Law 102-486-Oct. 24, 1992. |
| B.  Low Emission Vehicle Program (LEVP) | The Clean Air Act provides California the authority to set vehicle criteria emission standards that exceed Federal standards.  Apart of that program mandates the sale of zero emission vehicles by manufacturers, other nonattainment.  States are given the option of opting into the Federal or California emission standards. | Incorporates the LEVP program as amended on August 4, 2005.  Assumes California, Connecticut, Maine, Massachusetts, New Jersey, New York, Rhode island, Vermont, Oregon, and Washington adopt the LEVP program as amended August 4, 2005 and that the proposed sales requirements for hybrid, electric, and fuel cell vehicles are met. | Section 177 of the Clean Air Act, 42 U.S.C. sec. 7507 (1976) and CARB, California Exhaust Emissions Standards and Test Procedures for Passenger Cars, Light-Duty Trucks, and Medium-Duty Vehicles, August 4, 2005. |
| C.  Corporate Average Fuel Economy (CAFE) Standard | Requires manufacturers to produce vehicles whose average fuel economy meets a minimum Federal standard; cars and light trucks are regulated separately. | The current model year CAFE standard for cars is 27.5 mpg.  The car standard is unchange through 2011.  The current CAFE standard for light trucks is 22.5 mpg, increasing to 23.1 mpg in 2009, 23.5 mpg in 2010 and 24.1 mpg in 2011.  The assumed standard increases to 40.0 mpg for cars and 29.6 mpg for light trucks in 2020. | Energy Policy Conservation Act of 1975; Title 49 United States Code, Chapter 329; Federal Register, Vol. 68, No. 66, Monday, April 7, 2003; and Federal Register, Vol. 71, No. 66, April 6, 2006. For model years 2011 through 2016, U.S. Environmental Protection Agency and Department of Transportation Proposed Policymaking to establish Light-Duty Vehicle Greenhouse Gas Emissions Standards and Corporate Average Fuel Economy standards; Proposed Rule (Washington, D.C., September, 2009) For model year 2016 and beyond, EISA 2007, Title 1, Section 102. |
| E.  Electric, Hybrid, and Alternative Fuel Vehicle Tax Incentives | Federal tax incentives are provided to encourage the purchase of electric, hybrid and or alternative fuel vehicles.  For example, tax incentives for hybrid vehicles in the form of a $2,000 income tax deduction. | Incorporates the Federal tax incentives for hybrid and electric vehicles. | IRS Technical Publication 535; Business Expenses. |

| Legislation | Brief Description | AEO Handling | Basis |
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| F. Plug-in Hybrid Vehicle Tax Credit | EIEA2008 grants a tax credit of $2,500 for PHEVs with at least 4KWh of battery capacity, with larger batteries earning an additional $417 per kWh up to a maximum of $7,500 for light-duty PHEVs. The credit will apply until 250,000 eligible PHEVs are sold or until 2015, whichever comes first. | Incorporates the Federal tax credits for PHEVs. | Energy Improvement and Extension Act of 2008, H.R. 6049. |
| G. The Working Families Tax Relief Act of 2004 | The Act repeals the phase out of the credits which were allowed for qualified electric and clean fuel vehicles for property acquired in 2004 and 2005. The credit is reduced by 75 percent for vehicles acquired in 2006. This will provide an incentive to purchase electric and clean fuel vehicles. | The federal tax incentives are embodied in the code. This will provide an incentive to purchase electric and clean fuel vehicles but little impact is realized on projections of total highway energy use. | Sections 318 and 319 of the Working families Tax Relief Act of 2004. |
| H. State Electric, Hybrid, and Alternative Fuel Vehicle Tax and other incentives | Approximately 20 States provide tax and other incentives to encourage the purchase of electric, hybrid and or alternative fuel vehicles. The tax incentives are in the form of income reductions, tax credits, and exemptions. Other incentives include use of HOV lanes and exemptions from emissions inspections from emissions inspections and licensing fees. The incentives offered and the mix varies by state. For example, Georgia offers a tax credit of $5,000 for electric vehicles and Oklahoma offers a tax credit of $1,500 for hybrid and alternative fuel vehicles. | Does not incorporate State tax and other incentives for hybrid, electric, and other alternative fuel vehicle. | State laws in Arizona, Arkansas, California, Colorado, Delaware, Florida, Georgia, Iowa, Kansas, Louisiana, Maine, Maryland, Michigan, New Hampshire, New York, Oklahoma, Pennsylvania, Utah, Virginia, and Washington. |
| I. Energy Policy Act of 2005 | Provides tax credits for the purchase of vehicles that have a lean burn engine or employ a hybrid or fuel cell propulsion system. The amount of the credit received for a vehicle is based on the vehicle's inertia weight, improvement in city tested fuel economy relative to an equivalent 2002 base year value, emissions classification, type of propulsion system, and number of vehicles sold. | Incorporates the Federal tax incentives for hybrid and fuel cell vehicles. | Title XIII, Section 1341 of the Energy Policy Act of 2005. |
| **Electric Power Generation** | | | |
| A. Clean Air Act Amendment of 1990 | Established a national limit on electricity generator emissions of sulfur dioxide to be achieved through a cap and trade program. | Sulfur dioxide cap and trade program is explicitly modeled, choosing the optimal mix of options for meeting the national emissions cap. | Clean Air Act Amendments of 1990, Title IV, Sections 401 through 406, Sulfur Dioxide Reduction Program, 42 U.S.C. 7651a through 7651e. |
| | Set boiler type specific nitrogen oxide emissions limits for electricity generators. | Assumes each boiler installs the options necessary to comply with their nitrogen oxide emissions limit. | Clean Air Act Amendments of 1990, Title IV, Sections 407, Nitrogen Oxide Emission Reduction Program, 42 U.S.C. 7651f. |

| Legislation | Brief Description | AEO Handling | Basis |
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| | Under section 126, Northeast states petitioned the EPA arguing that generators in other states contributed to the nitrogen oxide emissions problems in their states. EPA established a summer season nitrogen oxide emission cap and trade program covering 22 states (three were removed by the courts) to start in May 2003 (delayed until May 2004). | The 19-state summer season nitrogen oxide cap and trade program is explicitly modeled, allowing electricity generators to choose the optimal mix of control options to meet the emission cap. | Section 126 Rule: Revised Deadlines, Federal Register: April 30, 2002 (volume 67, Number 83). Rules and Regulations, Pages 21521-21530. |
| | Requires the EPA to establish national ambient air quality standards (NAAQS). In 1997, EPA set new standards for ground level ozone and fine particulates. EPA is currently determining which areas of the country are not in compliance with the new standards. Area designations will be made in December 2004. States will then have until December 2007 to submit their compliance plans, and until 2009-2014 to bring all areas into compliance. | Because state implementation plans have not been established, these revised standards are not currently represented. | Clean Air Act Amendment of 1990, Title I, Sections 108 and 109, National Ambient Air Quality Standards for Ozone, 40 CFR Part 50, Federal Register, Vol 68, No 3, January 8, 2003. National Ambient Air Quality Standards for Particulate Matter, 40 CFR Part 50, Federal Register, Vol. 62, No. 138, July 18, 1997. |
| Clean Air Interstate Rule (CAIR) | CAIR imposes a two-phased limit on emissions of sulfur dioxide and/or nitrogen oxide from electric generators in 28 states and the District of Columbia. | Cap and trade programs for $SO_2$ and $NO_x$ are modeled explicitly, allowing the model to choose the best method for meeting the emission caps. | Federal Register, Vol. 70, No. 91 (May 12, 2005), 40 CFR Parts 51, 72, 73, 74, 77, 78 and 96. |
| B. State Mercury Provisions | Many states have adopted stringent regulations to limit mercury emissions and require the best control technologies be in operation. | Although state plans vary, a general regional requirement compatible with NEMS was used to require specific mercury emission removal rates for electric generators. | Various state laws. |
| C. Energy Policy Act of 1992 (EPACT92) | Created a class of generators referred to as exempt wholesale generators (EWGs), exempt from PUCHA as long as they sell wholesale power. | Represents the development of Exempt Wholesale Generators (EWGs) or what are now referred to as independent power producers (IPPs) in all regions. | Energy Policy Act of 1992, Title VII, Electricity, Subtitle A, Exempt Wholesale Generators. |
| | Created a permanent investment tax credit (ITC) for solar and geothermal facilities. | The ITCs for renewables are explicitly modeled as stated in the law. | Energy Policy Act of 1992, Title XII, Renewable Energy, Section 1212, Renewable. |
| D. The Public Utility Holding Company Act of 1935 (PUCHA) | PUCHA is a US federal statue which was enacted to legislate against abusive practices in the utility industry. The act grants power to the US Securities and Exchange Commission (SEC) to oversee and outlaw large holding companies which might otherwise control the provision of electrical service to large regions of the country. It gives the SEC power to approve or deny mergers and acquisitions and, if necessary, force utility companies to dispose of assets or change business practices if the company's structure of activities are not deemed to be in the public interest. | It is assumed that holding companies act competitively and do not use their regulated power businesses to cross-subsidize their unregulated businesses. | Public Utility Holding Company Act of 1936. |

| Legislation | Brief Description | AEO Handling | Basis |
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| E. FERC Orders 888 and 889 | FERC has issues two related rules Orders 888 and 889 designed to bring low cost power to consumers through competition, ensure continued reliability in the industry, and provide for open and equitable transmission services by owners of these facilities. Specifically, Order 888 requires open access to the transmission grid currently owned and operated by utilities. The transmission owners must file nondiscriminatory tariffs that offer other suppliers the same services that the owners provide for themselves. Order 888 also allows these utilities to recover stranded costs (investments in generating assets that are unrecoverable due to consumers selecting another supplier). Order 889 requires utilities to implement standards of conduct and a Open Access Same-time Information System (OASIS) through which utilities and non-utilities can receive information regarding the transmission system. Consequently, utilities are expected to functionally or physically unbundle their marketing functions from their transmission functions. | These orders are represented in the forecast by assuming that all generators in a given region are able to satisfy load requirements anywhere within the region. Similarly, it is assumed that transactions between regions will occur if the cost differentials between them make it economic to do so. | Promoting Wholesale Competition Through Open Access, Non-discriminatory Transmission Services by Public Utilities; Public Utilities and Transmitting Utilities, ORDER NO. 888 (Issued April 24, 1996), 18 CFR Parts 35 and 385, Docket Nos. RM95-8-000 and RM94-7-001. Open Access Same-Time Information System (formerly Real-Time Information Networks) and Standards of Conduct, ORDER NO. 889, (Issued April 24, 1996), 18 CFR Part 37, Docket No. RM95-9-000. |
| F. New Source Review (NSR) | On August 28, 2003, the EPA issued a final rule defining certain power plant and industrial facility activities as routine maintenance, repair and replacement, which are not subject to new source review (NSR). As stated by EPA, these changes provide a category of equipment replacement activities that are not subject to Major NSR requirements under the routine maintenance, repair and replacement (RMRR) exclusion.[1] Essentially this means that power plants and industrial facilities engaging in RMRR activities will not have to get preconstruction approval from the State or EPA and will not have to install best available emissions control technologies that might be required if NSR were triggered. | It is assumed that coal plants will be able to increase their output as electricity demand increases. Their maximum capacity factor is set at 84 percent. No increases in the capacity of existing plants is assumed. If further analysis shows that capacity uprates may result from the NSR rule, they will be incorporated in future AEOs. However, at this time, the NSR rile is being contested in the courts. | EPA, 40 CFR Parts 51 and 52, Prevention of Significant Deterioration (PSD) and Non-Attainment New Source Review (NSR): Equipment Replacement Provision of the Routine Maintenance, Repair and Replacement Exclusion; Final Rule, Federal Register, Vol. 68, No. 207, page 61248, October 27, 2003. |

| Legislation | Brief Description | AEO Handling | Basis |
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| G. State RPS laws, mandates, and goals | Several States have enacted laws requiring that a certain percentage of their generation come from qualifying renewable sources. | The AEO reference case represents the renewable portfolio standard (RPS) or substantively similar laws from 27 states and the District of Columbia. As described in the Renewable Fuels Module chapter of this document, mandatory targets from the various states are aggregated at the regional level, and achievement of non-discretionary compliance criteria is evaluated for each region. | The 27 states with RPS or other mandates providing quantified projections are detailed in the Legislation and Regulations section of this report. |
| H. State Environmental Laws | Several Sates have enacted laws requiring emissions reductions from their generating plants. | Where compliance plans have been announced, they have been incorporated. In total 22 gigawatts of planned SO2 scrubbers, 27 gigawatts of planned selective catalytic reduction (SCR) and 3 gigawatts of planned selective non-catalytic reduction (SNCR) are represented. | North Carolina's Clean Smoke Stacks Act, Session Law 2002-4, Senate Bill 1078, An Act to Improve Air Quality in the State by Imposing Limits on the Emission of Certain Pollutants from Certain Facilities that Burn Coal to Generate Electricity and to Provide for Recovery by Electric Utilities of the Costs of Achieving Compliance with those Limits. |
| I. Energy Policy Act of 2005 | Extended and substantially expanded and modified the Production Tax Credit, originally created by EPACT 1992. | EPACT2005 also adds a PTC for up to 6,000 megawatts of new nuclear capacity and a $1.3 billion investment tax credit for new or repowered coal-fired power projects.<br><br>The tax credits for renewables, nuclear and coal projects are explicitly modeled as specified in the law and subsequent amendments. | Energy Policy Act of 2005, Sections 1301, 1306, and 1307. |
| J. American Recovery and Reinvestment Act of 2009 | Extends the Production Tax Credit (PTC) to wind facilities constructed by December 31, 2012 and to other eligible renewable facilities constructed by December 31, 2013. Allows PTC-eligible facilities to claim a 30 percent investment tax credit (ITC) instead of the PTC. Projects starting construction by the end of 2010 may elect to take a cash grant equal to the value of the 30 percent ITC instead of either tax credit. | The extensions of the PTC and 30 percent ITC are represented in the AEO reference case as specified in the law. EIA assumes that eligible biomass facilities will elect to take the 30 percent ITC and that other eligible facilities will elect to take the PTC. | American Recovery and Reinvestment Act of 2009, Division B, Title I, Sec. 1101, 1102, and 1603. |
| | ARRA provided $6 billion to pay the cost of guarantees for loans authorized by the Energy Policy Act of 2005. The purpose of these loan guarantees is to stimulate the deployment of conventional renewable and transmission technologies and innovative biofuels technologies. However, to qualify eligible projects must be under construction by September 30, 2011. | In the electricity model, this was modeled through lowering the cost of financing by 2 percentage points for all eligible renewable projects brought on by 2015. The 2015 date, 4 years after the September 30, 2011, start of construction cutoff date, was chosen to allow for the construction period associated with most renewable generating technologies. | American Recovery and Reinvestment Act of 2009, Title IV, "Energy and Water Development", Section 406. |

| Legislation | Brief Description | AEO Handling | Basis |
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| | ARRA provides $4.5 billion for smart grid demonstration projects. These generally include a wide array of measurement, communications, and control equipment employed throughout the transmission and distribution system that will enable real-time monitoring of the production, flow, and use of power from generator to consumer. | In the electricity module, it was assumed that line losses would fall slightly, peak loads would fall as customers shifted their usage patterns, and customers would be more responsive to pricing signals. | American Recovery and Reinvestment Act of 2009, Title IV, "Energy and Water Development", Section 405. |
| | ARRA provides $800 million to fund projects under the Clean Coal Power Initiative program focusing on capture and sequestration of greenhouse gases. | It was assumed that one gigawatt of new coal with sequestration capacity would come online by 2017. | American Recovery and Reinvestment Act of 2009, Title IV, "Energy and Water Development" |
| **Oil and Gas Supply** | | | |
| A. The Outer Continental Shelf Deep Water Royalty Relief Act (DWRRA) | Mandates that all tracts offered by November 22, 2000, in deep water in certain areas of the Gulf of Mexico must be offered under the new bidding system permitted by the DWRRA. The Secretary of Interior must offer such tracts with a specific minimum royalty suspension volume based on water depth. | Incorporates royalty rates based on water depth. | 43 U.S.C. SS 1331-1356 (2002). |
| B. Energy Policy and Conservation Act Amendments of 2000 | Required the USGS to inventory oil and gas resources beneath Federal lands. | To date, the Rocky Mountain oil and gas resource inventory has been completed by the USGS. The results of this inventory have been incorporated in the technically recoverable oil and gas resource volumes used for the Rocky Mountain region. | Scientific Inventory of Onshore Federal Lands: Oil and Gas Resources and Reserves and the Extent and Nature of Restrictions or Impediments to their Development: The Paradox/San Juan, Uinta/Piceance, Greater Green River, and Powder River Basins and the Montana Thrust Belt. Prepared by the Departments of Interior, Agriculture and Energy, January 2003. |
| E. Section 29 Tax Credit for Nonconventional Fuels | The Alternative Fuel Production Credit (Section 29 of the IRC) applies to qualified nonconventional fuels from wells drilled or facilities placed in service between January 1, 1980, and December 31, 1992. Gas production from qualifying wells could receive a 3 dollar (1979 constant dollars) per barrel of oil equivalent credit on volumes produced through December 31, 2002. The qualified fuels are: oil produced from shale and tar sands; gas from geopressurized brine, Devonian shale, coal seams, tight formations, and biomass; liquid, gaseous, or solid synthetic fuels produced from coal; fuel from qualified processed formations or biomass; and steam from agricultural products. | The Section 29 Tax Credit expired on December 31, 2002, and it not considered in new production decisions. However, the effect of these credits is implicitly included in the parameters that are derived from historical data reflecting such credits. | Alternative Fuel Production Credit (Section 29 of the Internal Revenue Code), initially established in the Windfall Profit Tax of 1980. |

| Legislation | Brief Description | AEO Handling | Basis |
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| F.  Energy Policy Act of 2005 | Established a program to provide grants to enhance oil and gas recovery through $CO_2$ injection. | Additional oil resources were added to account for increased use of $CO_2$-enhanced oil recovery. | Title III, Section 354 of the Energy Policy Act of 2005. |
| **Natural Gas Transmission and Distribution** | | | |
| A.  Alaska Natural Gas Pipeline Act, Sections 101-116 of the Military Construction Hurricane Supplemental Appropriations Act, 2005. | Disallows approval for a pipeline to enter Canada via Alaska north of 68 degrees latitude.  Also, provides Federal guarantees for loans and other debt obligations assigned to infrastructure in the United States or Canada related to any natural gas pipeline system that carries Alaska natural gas to the border between Alaska and Canada south of 68 degrees north latitude. This authority would expire 2 years after the final certificate of public convenience and necessity is issued.  The guarantee will not exceed 1)  80 percent of the total capital costs (including interest during construction), 2) $18 billion dollars (indexed for inflation at the time of enactment), or 3) a term of 30 years. | Assumes the pipeline construction cost estimate for the "southern"Alaska pipeline route in projecting when an Alaska gas pipeline would be profitable to build.  With recent increased in cost estimates, well beyond $18 billion, the loan guarantee is assumed to have a minimal impact on the build decision. | P.L. 108-324. |
| B.  American Jobs Creation Act of 2004, Sections 706 and 707. | Provides a 7 year cost-of-investment recovery period for the Alaska natural gas pipeline, as opposed to the currently allowed 15-year recovery period, for tax purposes.  The provision would be effective for property placed in service after 2013, or treated as such.  Effectively extends the 15-percent tax credit currently applied to costs related to enhanced oil recovery to construction costs for a gas treatment plant on the on the North Slope that would feed gas into an Alaska pipeline to Canada. | The change in the recovery period is assumed to have a minimal impact on the decision to build the pipeline.  The assumed treatment costs are based on company estimates made after these tax provisions were enacted. | P.L. 108-357. |
| C.  Pipeline Safety Improvement Act of 2002 | Imposes a stricter regime on pipeline operators designed to prevent leaks and ruptures. | Costs associated with implementing the new safety features are assumed to be a small percentage of total pipeline costs and are partially offset by benefits gained through reducing pipeline leakage. It is assumed that the Act accelerates the schedule of repair work that would have been done otherwise. | P.L. 107-355, 116 Stat. 2985. |

| Legislation | Brief Description | AEO Handling | Basis |
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| D. FERC Order 436 (Issued in 1985) | Order 436 changed gas transmission from a merchant business, wherein the pipeline buys the gas commodity at the inlet and sold the gas commodity at the delivery point, to being a transportation business wherein the pipeline does not take title to the gas. Order 436 permitted pipelines to apply for blanket transportation certificates, in return for becoming non-discriminatory, open-access transporters. Order 436 also allocated gas pipeline capacity on a first-com, first-serve basis, allowed pipelines to discount below the maximum rate, allowed local gas distributors to convert to transportation only contracts, and created optional expedited certificates for the construction of new facilities. | Natural gas is priced at the wellhead at a competitive rate determined by the market. The flow of gas in the system is a function of the relative costs and is set to balance supply, demand, and prices in the market. Transportation costs are based on a regulated rate calculation | 50 F. R. 42408, FERC Statutes and Regulations Paragraph 30,665 (1985). |
| E. FERC Order 636 (Issued in 1992) | FERC Order 636 completed the separation of pipeline merchant services from pipeline transportation services, requiring pipelines to offer separate tariffs for firm transportation, interruptible transportation, and storage services. Order 636 also permitted pipelines to resell unused firm capacity as interruptible transportation, gave shippers the right to first refusal at the expiration of their firm transportation contracts, adopted Straight-Fixed-Variable rate methodology, and created a mechanism for pipelines to recover the costs incurred by prior take-or-pay contracts. | A straight-fixed-variable rate design is used to establish regulated rates. To reflect some of the flexibility built into the system, the actual tariffs charged are allowed to vary from the regulated rates as a function of the utilization of the pipeline. End-use prices are set separately for firm and interruptible customers for the industrial and electric generation sectors. | 57 F.R. 13267, FERC Statutes and Regulations Paragraph 30,939 (1992) |
| F. Hackberry Decision | Terminated open access requirements for new onshore LNG terminals and authorized them to charge market-based rather than cost-of-service rates. | This is reflected in the structural representation of U.S. LNG imports in EIA's International Natural Gas Model, used to develop U.S. LNG import supply curves for the NGTDM. | Docket No. PL02-9, Natural Gas Markets Conference (2002). |
| G. Maritime Security Act of 2002 Amendments to the Deepwater Port Act of 1974 | Transfers jurisdiction over offshore LNG facilities from FERC to the Maritime Administration (MARAD) and the Coast Guard, both under the Department of Transportation (DOT), provides these facilities with a new, streamlined application process, and relaxes regulatory requirements (offshore LNG facilities are no longer required to operate as common carriers or to provide open access as they did while under FERC jurisdiction). | This is reflected in the structural representation of U.S. LNG imports in EIA's International Natural Gas Model, used to develop U.S. LNG import supply curves for the NGTDM. | P.L. 107-295. |

| Legislation | Brief Description | AEO Handling | Basis |
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| H. Energy Policy Act of 2005 | Allowed natural gas storage facilities to charge market-based rates if it was believed they would not exert market power. | Storage rates are allowed to vary from regulation-based rates depending on market conditions. | Title III, Section 312 of the Energy Policy Act of 2005. |
| **Petroleum Refining** | | | |
| A. Ultra-Low-Sulfur Diesel (ULSD) regulations under the Clean Air Act Amendment of 1990 | 80 percent of highway diesel pool must contain 15 ppm sulfur or less starting in fall 2006. By mid-2010, all highway diesel must be 15 ppm or less. All nonroad, locomotive, and marine diesel fuel produced must contain less than 500 ppm starting mid-2007. By mid-2010 nonroad diesel must contain less than 15 ppm. Locomotive and marine diesel must contain less than 15 ppm by mid-2012. | Reflected in diesel specifications | 40 CFR Parts 69, 80, 86, 89, 94, 1039, 1048, 1065, and 1068 |
| B. Mobile Source Air Toxics (MSAT) controls under the Clean Air Act Amendment of 1990 | Establishes a list of 21 substances emitted from motor vehicles and known to cause serious human health effects, particularly benzene, formaldehyde, 1.3 butadiene, acetaldehyde, diesel exhaust organic gases, and diesel particulate matter. Establishes anti-backsliding and anti-dumping rules for gasoline. | Modeled by updating gasoline specifications to most current EPA gasoline survey data (2005) representing anti-backsliding requirements. | 40 CFR Parts 60 and 86. |
| C. Low-Sulfur Gasoline Regulations under the Clean Air Act Amendment of 1990 | Gasoline must contain an average of 30 ppm sulfur or less by 2006. Small refiners may be permitted to delay compliance until 2008. | Reflected in gasoline specifications. | 40 CFR Parts 80, 85 and 86 |
| D. MTBE Bans in 25 States | 23 States ban the use of MTBE in gasoline by 2007 | Ethanol assumed to be the oxygenate of choice in RFG where MTBE is banned. | State laws in Arizona, California, Colorado, Connecticut, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Michigan, Minnesota, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New York, North Carolina, Ohio, Rhode Island, South Dakota, Vermont, Washington, and Wisconsin. |
| E. Regional clean fuel formulations under the Clean Air Act Amendments of 1990 | States with air quality problems can specify alternative gasoline or diesel formulations with EPA's permission. California has long had authority to set its own fuel standards. | Reflected in PADD-level gasoline and diesel specifications. | State implementation plans required by the Clean Air Act Amendments of 1990, as approved by EPA. |
| F. Federal Motor Fuels Excise Taxes | Taxes are levied on each gallon of transportation fuels to fund infrastructure and general revenue. These taxes are set to expire at various times in the future but are expected to be renewed, as they have been in the past. | Gasoline, diesel, and ethanol blend tax rates are included in end-use prices and are assumed to be extended indefinitely at current nominal rates. | 26 USC 4041 Extended by American Jobs Creation Act of 2004 |

| Legislation | Brief Description | AEO Handling | Basis |
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| G.  State Motor Fuel Taxes | Taxes are levied on each gallon of transportation fuels. The assumption that State taxes will increase at the rate of inflation supports an implied need for additional highway revenues as driving increases. | Gasoline and diesel rates are included in end-use prices and are assumed to be extended indefinitely in real terms (to keep pace with inflation). | Determined by review of existing State laws performed semi-annually by EIA's Office of Oil and Gas. |
| H.  Diesel Excise Taxes | Phases out the 4.3 cents excise tax on railroads between 2005 and 2007. | Modeled by phasing out. | American Jobs Creation Act of 2004, Section 241. |
| I.  Energy Policy Act of 2005 (EPACT05) | | | |
| a.  Ethanol/biodiesel Tax Credit | Petroleum product blenders may claim tax credits for blending ethanol into gasoline and for blending biodiesel into diesel fuel or heating oil.  The credits may be claimed against the Federal motor fuels excise tax or the income tax.  The tax credits are 51 per gallon of nonvirgin biodiesel, and $1.00 per gallon of virgin biodiesel. The ethanol tax credit expires in 2010. The biodiesel tax credits expire after 2008. | The tax credits are applied against the production costs of the products into which they are blended.  Ethanol is used in gasoline and E85.  Virgin biodiesel is assumed to be blended into highway diesel, and nonvirgin biodiesel is assumed to be blended into nonroad diesel or heating oil. | 26 USC 40, 4041 and American Jobs Creation Act of 2004.  Biodiesel tax credits extended to 2008 under Energy Policy Act of 2005. |
| b.  Renewable Fuels Standard (RFS) | This section has largely been redefined by EISA07 (see below) however EPA rulemaking completed for this law was assumed to contain guiding principles for the rules and administration of EISA07. | | Energy Policy Act of 2005, Section 1501. |
| c.  Elimination of Oxygen Content Requirement in Reformulated Gasoline | Within 270 days of enactment of the Act, except for California where it is effective immediately. | Oxygenate waiver already in option of the model.  MTBE is assumed to phase out in 2006 resulting from the petroleum industry''s decision to discontinue use. AEO projection may still show use of ethanol in gasoline based on the economics between ethanol and other gasoline blending components. | Energy Policy Act of 2005, Section 1504. |
| d.  Coal Gasification Provisions | Investment tax credit program for qualifying advanced clean coal projects including Coal to Liquids Projects. | Two CTL units are available to build with lower capital costs reflecting the provision's funding. | Energy Policy Act of 2005, Section 1307. |
| J. Energy Independence and Security Act of 2007 (EISA07) | | | |
| a.  Renewable Fuels Standard  (RFS) | Requires the use of 36 billion gallons of ethanol per year by 2022, with corn ethanol limited to 15 billion gallons.  Any other biofuel may be used to fulfill the balance of the mandate, but the balance must include 16 billion gallons per year of cellulosic biofuel by 2022 and 1 billion gallons per year of biodiesel by 2012. | The RFS is included in AEO2008, however it is assumed that the schedule for cellulosic biofuel is adjusted downward consistent with waiver provisions contained in the law. | |

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting.

**Abbreviations:**

AEO: Annual Energy Outlook
AFUE: Average Fuel Use Efficiency
Btu: British Thermal Unit
CAFE: Corporate Average Fuel Economy
CBECS: Commercial Building Energy Consumption Survey
CFR: Code of Federal Regulations
DOE: Department of Energy
DOT: Department of Transportation
DWRRA: Deep Water Royalty Relief Act
EER: Energy Efficient Ratio
EF: Energy Efficiency
EIA: Energy Information Administration
EPA: Environmental Protection Agency
EPACT92: Energy Policy Act of 1992
EPACT05: Energy Policy Act of 2005
EWGs: Exempt Wholesale Generators
FERC: Federal Energy Regulatory Commission
HERS: Home Energy Efficiency Rating
HVAC: Heating, Ventilation, and Air Conditioning IECC: International Energy
 Conservation Code ITC: Investment Tax Credit
 kWh: Kilowatthour
LBNL: Lawrence Berkeley National Laboratory
LEVP: Low Emission Vehicle Program
LNG: Liquified Natural Gas
MARAD: Maritime Administration
MEF: Modified Energy Factor
MSAT: Mobile Source Air Toxics MTBE: Methyl-Tertiary-Butyl-Ether
OASIS: Open Access Same-Time Information System
PADD: Petroleum Administration for Defense Districts
P.L.: Public Law
PPM: Parts Per Million
PTC: Production Tax Credit
PUCHA: Public Utility Holding Company Act of 1935
RECS: Residential Energy Consumption Survey
RPS: Renewable Portfolio Standard
SCR: Selective Catalytic Reduction
SEER: Seasonal Energy Efficiency Rating
SO2: Sulfur Dioxide
SNCR: Selective Non-Catalytic Reduction
ULSD: Ultra-Low Sulfur Dioxide
U.S.C.: United States Code
USGS: United States Geological Survey
ZEV: Zero Emission Vehicle