Integrating Module of the National Energy Modeling System: Model Documentation 2005

May 2005

Office of Integrated Analysis and Forecasting
Energy Information Administration
U.S. Department of Energy
Washington, DC  20585

This report was prepared by the Energy Information Administration, the independent statistical and analytical agency within the Department of Energy. The information contained herein should not be construed as advocating or reflecting any policy position of the Department of Energy or any other organization.
Update Information

This edition of the *Integrating Module of the National Energy Modeling System—Model Documentation 2005* reflects changes made to the integrating module over the past year for the *Annual Energy Outlook 2005*, as well as miscellaneous updates to address review comments and suggestions by the Energy Information Administration’s Statistics and Methods Group. These changes include:

- Updates to the summary descriptions of each NEMS module.
- Revisions to the description and implementation of the Global Data Structure.
- Changes to the description of NEMS algorithm loops referred to as “cycles.”
- Changes to the description of the NEMS convergence metric.
- Updates to the foresight methodology descriptions to reflect the use of perfect foresight for price expectations in the Electric Market Module within the NEMS forecast horizon (through 2025) and an adaptive expectations approach that is now only used for price expectations beyond 2025.
- Updates to the carbon dioxide emissions factor table to reflect the most recent annual data, as well as a change in units displayed from million metric tons carbon to million metric tons carbon dioxide.
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1. Introduction

The National Energy Modeling System (NEMS) is a computer-based, energy-economy modeling system of U.S. energy markets for the midterm period, extending through 2025. NEMS projects the production, imports, conversion, consumption, and prices of energy, subject to a variety of assumptions. The assumptions encompass macroeconomic and financial factors, world energy markets, resource availability and costs, behavioral and technological choice criteria, technology characteristics, and demographics. NEMS produces a general equilibrium solution for energy supply and demand in the U.S. energy markets on an annual basis.

Baseline forecasts from NEMS are published in the Annual Energy Outlook. Analyses are also prepared in response to requests by the U.S. Congress, Administration, and other Federal agencies. NEMS was first used for forecasts presented in the Annual Energy Outlook 1994.

Scope and Organization

Publication of this document is supported by Public Law 93-275, Federal Energy Administration Act of 1974, Section 57(B)(1) (as amended by Public Law 94-385, Energy Conservation and Production Act), which states in part

...that adequate documentation for all statistical and forecast reports prepared...is made available to the public at the time of publication of such reports.

In particular, this report is designed to meet EIA's model documentation standards established in accordance with these laws.

For documentation purposes, the individual components of NEMS are considered distinct models and documented individually. While the NEMS integrating module is a distinct component of NEMS, the integrating module is not by itself a model. Rather, it is a component of the overall NEMS model and implements specific aspects of the overall modeling methodology that are not documented elsewhere. The documentation is organized accordingly.

Because the Integrating Module controls the solution process for all components of NEMS, the second chapter summarizes NEMS as a whole. Readers interested in a more comprehensive summary of NEMS should see The National Energy Model System: An Overview 2003, DOE/EIA-0581(2003), March 2003.¹

Chapter 3 describes the NEMS global data structure, used for inter-module communication, solution initialization and storage, and certain database operations.

Chapter 4, Integrating Module Solution Methodology, provides the mathematical specification for the solution algorithm and describes the convergence techniques used. Chapter 4 also

¹See http://tonto.eia.doe.gov/FTPROOT/forecasting/05812003.pdf
documents other modeling functions of the Integrating Module, including generation of foresight assumptions and carbon dioxide emission policy routines.

A bibliography is contained in Appendix A, and Appendix B describes some of the configuration management and other implementation practices used to coordinate NEMS software development.

**Model Archival Citation**

This documentation refers to the NEMS Integrating Module as archived for the *Annual Energy Outlook 2005 (AEO2005)*.
2. Overview of the Structure of NEMS

NEMS is structured as a modular system. The modules include the Integrating Module and a series of relatively independent modules that represent the domestic energy system, the international energy market, and the economy. The domestic energy system is decomposed into fuel supply markets, conversion activities, and end-use consumption sectors.

As shown in Figure 1, NEMS consists of four supply modules (oil and gas, natural gas transmission and distribution, coal, and renewable fuels), two conversion modules (electricity and petroleum refineries), four demand modules (residential, commercial, transportation and industrial sectors), one module to simulate energy/economy interactions (macroeconomic activity), one to simulate world energy/domestic energy interactions (international energy activity), and one module that provides the mechanism to achieve a general market equilibrium among all the modules (integrating module). The last of these is the focus of this document.

Model modularity implies a system of self-contained units, each performing a specific, well-defined function. This concept is generally consistent with the economic structure of energy markets, which can be represented by various supply, conversion, and demand components that are largely separable. Because energy markets are heterogeneous, a single methodology cannot adequately represent all supply, conversion, and end-use demand sectors. The modularity of the NEMS design provides the flexibility for each component to use the methodology and regional coverage that is most appropriate.

The NEMS includes the capability to execute the modules individually or in subsets. This fosters independent module development, a distribution of model development work organized by energy market specialties, and incremental development of the system as a whole. Several modules are further decomposed into “submodules” for development and documentation purposes. While the submodules may not be executed individually, they constitute separable logical entities within a module. For example, the integrating module has an “Emissions Policy Submodule” that is stored and maintained independently for programming and model management purposes, but is considered part of the integrating module because of its centralized functions that cut across all of NEMS.

To support modularity, the information flows between modules must be centralized in some way. The data linkages between modules are implemented through the NEMS Global Data Structure. The Global Data Structure (discussed in more detail in Chapter 3) is defined as the set of data communicated among any of the thirteen NEMS modules or used in the NEMS output reports. The global data is shared passively; the integrating module does not direct or control information flows, other than to manage the input and output of global data as a whole. Individual NEMS modules access the global data they need for input and must update the global variables storing their module's output.
The primary data flows among the modules are the delivered prices of energy and the quantities consumed by product, region, and sector. As shown in Table 1, the information flows among modules are not limited to prices and quantities, but include other information such as economic activity, capital expenditures, and international energy supply curves.

Many NEMS modules simulate the economic decision-making involved in the portion of the energy system being modeled. In order to represent these decisions, NEMS is constructed with a reasonably fine detail of energy product categories and the regional locations of the sites of energy production and use. This detail is necessary since the economics of allocating energy products is strongly influenced by the product category at issue and regional differences in costs and other factors. Table 2 provides a summary of NEMS product and regional detail.
### Table 1. Inputs and Outputs of NEMS Modules

<table>
<thead>
<tr>
<th>Module</th>
<th>Outputs</th>
<th>Inputs from NEMS</th>
<th>Exogenous Inputs</th>
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</table>
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Domestic and Canadian natural gas supply 
curves  
Mexican and liquefied natural gas imports and exports  
Cogeneration from oil and gas production  
Reserves and reserve additions  
Drilling levels  
Associated-Dissolved gas production | Domestic and Canadian natural gas 
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Crude oil demand  
World oil price  
Electricity Price  
Gross domestic product  
Inflation rate | Resource levels  
Initial finding rate parameters and costs  
Production profiles  
Tax parameters  
Mexican and liquefied natural gas imports and exports |
| **Natural Gas Transmission and Distribution** | Natural gas end-use and electric generator prices  
Domestic and Canadian natural gas wellhead prices  
Domestic natural gas production  
Canadian natural gas imports and production  
Lease and plant fuel consumption  
Pipeline fuel use  
Pipeline and distribution tariffs  
Interregional natural gas flows  
Storage and pipeline capacity expansion  
Supplemental gas production | Natural gas demands  
Domestic and Canadian natural gas supply curves  
Mexican and liquefied natural gas imports  
Macroeconomic variables  
Associated-dissolved natural gas production | Historical consumption patterns  
Historical flow patterns  
Rate design specifications  
Company-level financial data  
Pipeline and storage capacity and utilization data  
Historical end-use prices  
State and Federal tax parameters  
Pipeline and storage expansion cost data  
Supplemental gas production |
| **Petroleum Market** | Petroleum product prices  
Crude oil imports and exports  
Crude oil demand  
Petroleum product imports and exports  
Refinery activity and fuel use  
Ethanol demand and price  
Combined heat and power (CHP)  
Natural gas plant liquids production  
Processing gain  
Capacity additions  
Capital expenditures  
Revenues | Petroleum product demand by sector  
Domestic crude oil production  
World oil price  
International crude oil supply curves  
International product supply curves  
International oxygenates supply curves  
Natural gas prices  
Electricity prices  
Coal prices  
Natural gas production  
Macroeconomic variables  
Biomass supply curves | Processing unit operating parameters  
Processing unit capacities  
Product specifications  
Operating costs  
Capital costs  
Transmission and distribution costs  
Federal and State taxes  
Agricultural feedstock quantities and costs  
CHP unit operating parameters  
CSP unit capacities |
| **Coal Market** | Coal production and distribution  
Minemouth coal prices  
End-use coal prices  
Coal exports  
Transportation rates  
Coal quality by source, destination, and end-use sector  
World coal flows | Coal demand  
Interest rates  
Price indices and deflators  
Diesel fuel prices  
Electricity prices | Base year production, prices, and coal quality parameters  
Contract quantities  
Labor productivity  
Labor costs and cost escalators  
Domestic transportation costs  
International transportation costs  
Demand for U.S. coal imports |
| **Renewable Fuels** | Energy production capacities  
Capital costs  
Operating costs (including wood supply prices for the wood submodule)  
Capacity factors  
Available capacity  
Biomass fuel costs  
Biomass supply curves | Installed energy production capacity  
Gross domestic product  
Population  
Interest rates  
Avoided cost of electricity  
Discount rate  
Capacity additions  
Biomass consumption | Site-specific geothermal resource quality data  
Site-specific wind resource quality data  
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Technology cost and performance parameters  
Landfill gas capacity |
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<td>Electricity sales</td>
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<td>Capacity additions</td>
<td>Cogeneration supply and fuel</td>
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<td>New technologies</td>
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<td>Residential</td>
<td>Energy demand by service and fuel type</td>
<td>Interest rates</td>
<td>Existing facilities</td>
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<td>Changes in housing and appliance stocks</td>
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<td>Floorspace growth</td>
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<td>Energy demand by service and fuel type</td>
<td>Energy product prices</td>
<td>New appliance types, efficiencies, costs</td>
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<td>World oil price</td>
<td>Domestic production of crude oil, natural gas liquids, gas-to-liquids, coal- to-liquids, and other liquids production</td>
<td>OPEC Production Path</td>
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<td>Domestic refinery gain</td>
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<td>Domestic imports of crude oil, refined products, oxygenates, and unfinished oils</td>
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<td>Other economic activity measures, including housing starts, commercial floorspace growth, vehicle sales, population</td>
<td>Petroleum, natural gas, coal, and electricity prices</td>
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### Table 2. Summary of NEMS Modeling Detail

<table>
<thead>
<tr>
<th>Energy Sector</th>
<th>Categories</th>
<th>Regions</th>
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</thead>
</table>
| Residential demand          | Sixteen end-use services  
Three housing types  
Thirty-four end-use technologies | Nine Census divisions                                        |
| Commercial demand           | Ten end-use services  
Eleven building types  
Ten distributed generation technologies  
Sixty-four end-use technologies | Nine Census divisions                                        |
| Industrial demand           | Seven energy-intensive industries  
Eight non-energy-intensive industries  
Cogeneration                                                    | Four Census regions, shared to nine  
Census divisions                                                |
| Transportation demand       | Six car sizes  
Six light truck sizes  
Sixty-three conventional fuel-saving technologies for light-duty vehicles  
Gasoline, diesel, and thirteen alternative-fueled vehicle technologies for light-duty vehicles  
Twenty vintages for light-duty vehicles  
Narrow and wide-body aircraft  
Six advanced aircraft technologies  
Medium and heavy freight truck size classes  
Thirty-Seven advanced freight truck technologies | Nine Census divisions                                        |
| Electricity                 | Eleven fossil technologies  
Two distributed generation technologies  
Seven renewable technologies  
Conventional and advanced nuclear  
Marginal and average cost pricing  
Generation capacity expansion  
Seven environmental control technologies | Fifteen electricity supply regions                                        |
| Renewables                  | Wind, geothermal, solar thermal, solar photovoltaic, landfill gas, biomass, conventional hydropower | Fifteen electricity supply regions                                        |
| Oil supply                  | Onshore  
Deep and shallow offshore                                                   | Six lower 48 onshore regions  
Three lower 48 offshore regions  
Three Alaska regions                                             |
| Natural gas supply          | Conventional lower-48 onshore  
Lower-48 deep and shallow offshore  
Coalbed methane  
Gas shales  
Tight sands  
Canadian, Mexican, and liquefied natural gas  
Alaskan gas                                                    | Six lower 48 onshore regions  
Three lower 48 offshore regions  
Three Alaska regions  
Eight liquefied natural gas import regions                        |
| Natural gas transmission and distribution | Core vs. noncore  
Peak vs. offpeak  
Pipeline capacity expansion                                                                 | Twelve lower-48 regions  
Ten pipeline border points                                         |
| Refining                    | Five crude oil categories  
Fourteen product categories  
More than 40 distinct technologies  
Refinery capacity expansion                                      | Three refinery regions aggregated from Petroleum Administration for Defense Districts |
| Coal supply                 | Three sulfur categories  
Four thermal categories  
Underground and surface mining types  
Imports and Exports                                              | Eleven supply regions  
Thirteen demand regions  
Sixteen export regions  
Twenty import regions                                             |
The Integrating Module of NEMS processes energy consumption and price information aggregated primarily at the Census division levels. The nine Census divisions are depicted in Figure 2. In addition, the integrating module processes some intermodule energy market data at regional levels tied to electricity supply regions. These alternative regional breakouts provide specific market feedbacks for consumption and prices of fuel used for electricity generation. While the NEMS modules use different regional structures as appropriate for their market segments, they aggregate (or disaggregate) their solutions to the Census division structure for processing by the Integrating Module and by the reporting programs. Details of the conversion processes embedded in the modules are given in the individual Model Documentation Reports (see Appendix A, bibliography).

The projection horizon for NEMS is 2025, covering that time period in which the structure of the economy, the nature of energy markets, and regional demographics are sufficiently well understood in structural and regional detail. The majority of policies proposed today can be expected to have their greatest impacts during the midterm years.

Rather than trying to attain some planned state of energy markets, NEMS attempts to simulate where the present state of energy markets and planned policies would take us. Therefore it solves forward in time year-by-year.

The Integrating Module applies the Gauss-Seidel algorithm for solving simultaneous nonlinear equations as its solution methodology. Chapter 4 describes this approach in detail.

Figure 2. Census Divisions

The individual modules of NEMS are described briefly below:
Macroeconomic Activity Module

The Macroeconomic Activity Module provides a set of essential macroeconomic drivers to the energy modules and a macroeconomic feedback mechanism within NEMS. Key macroeconomic variables include Gross Domestic Product (GDP), industrial output, interest rates, disposable income, prices, and employment. This module uses the following Global Insight models: the Macroeconomic Model of the U.S. Economy, the National Industry Model, and the National Employment Model. In addition, EIA has constructed a Regional Economic and Industry Model to forecast regional economic drivers and a Commercial Floorspace Model to forecast 13 floor space types in 9 Census divisions. For AEO2005, bulk chemicals are disaggregated into organic and inorganic chemicals, resins, and agricultural chemicals. In addition, the accounting framework for industrial output has changed from the Standard Industrial Classification (SIC) system to the North American Industry Classification System (NAICS), which has reclassified the components of gross industrial output and moved some manufacturing activities into services.

International Module

The International Module represents the world oil markets, calculating the average world oil price and computing supply curves for five categories of imported crude oil for the Petroleum Market Module (PMM) of NEMS, in response to changes in U.S. import requirements. Fourteen international petroleum product supply curves, including curves for oxygenates, are also calculated for use in the PMM. A world oil supply/demand balance is created, including estimates for 16 oil consumption regions and 18 oil production regions. The oil production estimates include both conventional and nonconventional supply recovery technologies.

Residential and Commercial Demand Modules

The Residential Demand Module forecasts consumption of residential sector energy by housing type and end use, based on delivered energy prices, the menu of equipment available, the availability of renewable sources of energy, and housing starts. The Commercial Demand Module forecasts consumption of commercial sector energy by building types 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 floor space 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 effects of both building shell and appliance standards. The commercial module incorporates combined heat and power (CHP) technology. The modules include a forecast of distributed generation.

Industrial Demand Module

The Industrial Demand Module forecasts the consumption of energy for heat and power and for feed stocks and raw materials in each of 16 industry groups, subject to the delivered prices of energy and macroeconomic variables representing employment and the value of shipments for
each industry based on NAICS. The industries are classified into three groups: energy-intensive, non-energy-intensive, and nonmanufacturing. Of the eight energy-intensive industries, seven are modeled in the Industrial Demand Module, with components for boiler/steam/cogeneration, buildings, and process/assembly use of energy. Bulk chemicals have been further disaggregated to organic, inorganic, resins, and other petroleum products. A representation of cogeneration and a recycling component are also included. The use of energy for petroleum refining is modeled in the Petroleum Market Module, and the projected consumption is included in the industrial totals.

Transportation Demand Module

The Transportation Demand Module forecasts consumption of transportation sector fuels, 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 the value of output for industries in the freight sector. Fleet vehicles are represented separately to allow analysis of the Clean Air Act Amendments (CAAA) and other legislative proposals, and the module includes a component to explicitly assess the penetration of alternative-fuel vehicles. The air transportation component explicitly represents the industry practice of parking aircraft to reduce operating costs and the movement of aircraft from the passenger to cargo markets as aircraft age. For air-freight shipments, the model employs narrow-body and wide-body aircraft only. The model also uses an infrastructure constraint that limits air travel growth to levels commensurate with industry-projected infrastructure expansion and capacity growth.

Electricity Market Module

The Electricity Market Module models generation, transmission, and pricing of electricity, subject to delivered prices for coal, petroleum products, natural gas, and biofuels; costs of generation by all generation plants, including capital costs; macroeconomic variables for costs of capital and domestic investment; enforced environmental emissions laws and regulations; and electricity load shapes and demand. There are three primary submodules: capacity planning, fuel dispatching, and finance and pricing. Nonutility generation, distributed generation, and transmission and trade are modeled in the planning and dispatching submodules. The levelized fuel cost of uranium fuel for nuclear generation is directly incorporated into the Electricity Market Module. All specifically identified CAAA compliance options that have been promulgated by the U.S. Environmental Protection Agency (EPA) are explicitly represented in the capacity expansion and dispatch decisions; those that have not been promulgated are not incorporated (e.g., fine particulate proposal). Several States, primarily in the Northeast, have recently enacted air emission regulations that affect the electricity generation sector. Where firm State compliance plans have been announced, regulations are represented in AEO2005.

Renewable Fuels Module
The Renewable Fuels Module (RFM) includes submodules representing natural resource supply and technology input information for central-station, grid-connected electricity generation technologies, including conventional hydroelectricity, biomass (wood, energy crops, and biomass co-firing), geothermal, landfill gas, solar thermal electricity, solar photovoltaics, and wind energy. The RFM contains natural resource supply estimates representing the regional opportunities for renewable energy development. Investment tax credits for renewable fuels are incorporated, as currently legislated in the Energy Policy Act of 1992. They provide a 10-percent tax credit for business investment in solar energy (thermal non-power uses as well as power uses) and geothermal power. The credits have no expiration date.

**Oil and Gas Supply Module**

The Oil and Gas Supply Module models domestic crude oil and natural gas supply within an integrated framework that captures the interrelationships between the various sources of supply: onshore, offshore, and Alaska by both conventional and nonconventional techniques, including gas recovery from coal beds and low-permeability formations of sandstone and shale. This 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 gas production functions are computed at a level of 12 supply regions, including 3 offshore and 3 Alaskan regions. This module also represents foreign sources of natural gas, including pipeline imports and exports to Canada and Mexico, and liquefied natural gas (LNG) imports and exports.

Crude oil production quantities are input to the Petroleum Market Module in NEMS for conversion and blending into refined petroleum products. Supply curves for natural gas are input to the Natural Gas Transmission and Distribution Module for use in determining natural gas prices and quantities. International LNG supply sources and options for regional expansions of domestic regasification capacity are represented, based on the projected regional costs associated with gas supply, liquefaction, transportation, regasification, and natural gas market conditions.

**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 in an aggregate, domestic pipeline network, connecting the domestic and foreign supply regions with 12 demand regions. This capability allows the analysis of impacts of regional capacity constraints in the interstate natural gas pipeline network and the identification of pipeline and storage capacity expansion requirements. Peak and off-peak periods are represented for natural gas transmission, and core and noncore markets are represented at the burner tip. Key components of pipeline and distributor tariffs are included in the pricing algorithms.

**Petroleum Market Module**

The Petroleum Market Module (PMM) forecasts 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 alcohol fuels. The module represents refining activities in the five Petroleum Administration for Defense Districts (PADD) regions. The module uses the same crude oil types as the International Energy Module. It explicitly models the requirements of CAAA and the costs of automotive fuels, such as oxygenated and reformulated gasoline, and includes oxygenate production and blending for reformulated gasoline. \textit{AEO2005} reflects legislation that bans or limits the use of the gasoline blending component methyl tertiary butyl ether (MTBE) in twenty states.

The Federal oxygen requirement for reformulated gasoline in Federal nonattainment areas is assumed to remain intact. The nationwide phase-in of gasoline with an average sulfur content of 30 parts per million between 2005 and 2007, and the diesel regulation that limit the sulfur content to 15 parts per million in all highway diesel starting in mid-2006 and in all nonroad and locomotive/marine diesel fuel by mid-2012, are represented in \textit{AEO2005}. Growth in demand and the costs of the regulations lead to capacity expansion for refinery-processing units, assuming a financing ratio of 60 percent equity and 40 percent debut, with a hurdle rate and an after-tax return on investment at about 10 percent. End-use prices are based on the marginal costs of production, plus markups representing product and distribution costs, and State and Federal taxes. Refinery capacity expansion at existing sites may occur in all five refining regions modeled.

Fuel ethanol and biodiesel are included in the PMM because they are commonly blended into petroleum products. The PMM allows ethanol blending into gasoline at 10 percent by volume or less and also allows limited quantities of E85, a blend of up to 85 percent ethanol by volume. Ethanol is produced primarily in the Midwest from corn or other starchy crops, and it is expected to be produced from cellulosic material in other regions in the future. Biodiesel is produced from soybean oil or yellow grease, which is primarily recycled cooking oil. Soybean oil biodiesel is assumed to be blended into highway diesel, and yellow grease biodiesel is assumed to be blended into non-highway diesel.

\section*{Coal Market Module}

The Coal Market Module (CMM) simulates mining, transportation, and pricing of coal, subject to the end-use demand for coal differentiated by heat and sulfur content. U.S. coal production is represented in the CMM using 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 in the CMM through the use of a linear programming algorithm that determines the least-cost supplies of coal for a given set of coal demands by demand region and sector, accounting for minemouth prices, transportation costs, existing coal supply contracts, and sulfur allowance costs. Over the forecast horizon, coal transportation costs in the CMM are projected to vary in response to changes in railroad productivity and the user cost of rail transportation equipment.

The CMM produces projections of U.S. steam and metallurgical coal exports, in the context of world coal trade. The CMM’s linear programming algorithm determines the pattern of world coal trade flows that minimizes the production and transportation costs of meeting a pre-specified set of regional world coal import demands, subject to constraints on export capacities by country and coal type and trade flows.
U.S. coal production and distribution are computed for 14 supply and 14 demand regions. The international coal market component of the module computes trade in 3 types of coal for 16 export and 20 import regions. Projections of annual U.S. coal imports, specified by demand region and sector, are developed exogenously based primarily on the capability and plans of existing coal-fired power plants to import coal and announced plans to expand coal import infrastructure.
3. Global Data Structure

The Global Data Structure defines the subset of NEMS variables used for intermodule communication and reporting. The variables consist of endogenous global variables shared among modules, such as prices, consumption, and macroeconomic information. The variables also include global reporting variables, as well as a subset of model control parameters and assumptions. The Global Data Structure excludes variables defined exclusively for use in a single module.

The variables in the Global Data Structure are defined and organized in a set of Fortran “common blocks” that designate groups of global variables and their storage locations in the program.

A Fortran common block is a named data storage area in a program containing the contents of one or more program variables. In a Fortran program, any subroutine or function can access and change the contents of variables in a common block, provided the common block and variable declarations are repeated within the subroutine's declarations. The global variables can be organized in multiple, named common blocks so as to limit access within a subroutine to only those parts of the global data that are needed. The common block storage area is initialized with zeroes when the program begins, and the variables are filled through assignment statements and “read” statements during program execution.

The Global Data Structure can be thought of as defining a data storage area within NEMS. It is not specifically a part of the integrating module or any other module of NEMS, but rather exists in program memory during NEMS execution. During NEMS execution, each module accesses the global input and output variables it needs through these common blocks. Most modules also have other variables defined in common blocks for intra-module communication. However, such common blocks declared for a module's private use are not considered a part of the Global Data Structure in NEMS.

The common block structure designed to store the NEMS Global Data Structure is displayed in Table 3. The specific elements of the common block structure are defined in the “include” files containing declarations for variables. In addition, a data dictionary for the Global Data Structure includes definitions for each variable. The data dictionary is a text format input file to the NEMS data management routine, FILER.
### Table 3. Common Blocks in the NEMS Global Data Structure

<table>
<thead>
<tr>
<th>Module(s) Filling the Common Block</th>
<th>Common Block Names</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrating, multiple contributors, or exogenous</td>
<td>QBLK, MPBLK, MXQBLK, MXPBLK, QSBK, NCNTRL, EMISSION, CAPEXP, COGEN, CONVFACT, HEMREP, COALEMM</td>
<td>End-Use Sector Quantities (See Table 4) End-Use Sector Prices (See Table 5) Expected Quantities for foresight Expected Prices for foresight SEDS Historical data corresponding to QBLK Control Variables Pollution Emissions and related results Capital Expenditures for Energy Equipment Cogeneration Global conversion factors Household Expenditures report variables Variables exchanged between the Coal Market Module and Electricity</td>
</tr>
<tr>
<td>Integrating (Emission Policy Submodule)</td>
<td>EMABLK, AMPBLK, ANGTDM, ACOALPRC, CONVERGE, EMEBLK, EPMBANK</td>
<td>Price adjustments for carbon dioxide fees, if any Copies of MPBLK, NGTDMOUT, COALOUT, COALPRC with prices adjusted by any carbon dioxide fees Convergence variable data and reporting summary Carbon dioxide emissions factors by fuel/sector Parameters for an emissions constraint banking option</td>
</tr>
<tr>
<td>Macroeconomic</td>
<td>MACOUT, MCDETAIL</td>
<td>Output variables Reporting Variables</td>
</tr>
<tr>
<td>Residential</td>
<td>RESDREP, RSCON, RSEFF</td>
<td>Reporting variables Energy by end use Efficiency by end use</td>
</tr>
<tr>
<td>Commercial</td>
<td>COMPARAM, COMOUT, COMMREP, BLDGLRN</td>
<td>Control parameters, assumptions Output variables Reporting Variables Cumulative shipments of distributed generation technologies for “learning” curves</td>
</tr>
<tr>
<td>Module(s) Filling the Common Block</td>
<td>Common Block Names</td>
<td>Description</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Transportation</td>
<td>TRANREP</td>
<td>Reporting Variables</td>
</tr>
<tr>
<td>Industrial</td>
<td>INDOUT</td>
<td>Natural Gas and LPG Feedstocks</td>
</tr>
<tr>
<td>Industrial</td>
<td>INDREP</td>
<td>Reporting Variables</td>
</tr>
<tr>
<td>Industrial</td>
<td>INDREP2</td>
<td>Reporting Variables</td>
</tr>
<tr>
<td>Industrial</td>
<td>BIFURC</td>
<td>Energy by fuel/region classified by covered and uncovered industry groups for emission cap and trade analysis</td>
</tr>
<tr>
<td>Electricity</td>
<td>UEFPOUT</td>
<td>Electricity pricing outputs</td>
</tr>
<tr>
<td>Electricity</td>
<td>EFPOUT</td>
<td>Electricity pricing outputs</td>
</tr>
<tr>
<td>Electricity</td>
<td>UEFDOUT</td>
<td>Fuel-dispatch outputs</td>
</tr>
<tr>
<td>Electricity</td>
<td>UDATOUT</td>
<td>Electricity central data outputs</td>
</tr>
<tr>
<td>Electricity</td>
<td>UECPOUT</td>
<td>Capacity planning outputs</td>
</tr>
<tr>
<td>Electricity</td>
<td>DSMTFEFP</td>
<td>Demand side management /electricity pricing variables</td>
</tr>
<tr>
<td>Electricity</td>
<td>ULDSMOUT</td>
<td>Load and demand side management variables</td>
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<td>Electricity</td>
<td>UETTOUT</td>
<td>Electricity trade outputs</td>
</tr>
<tr>
<td>Electricity</td>
<td>EUSPRC</td>
<td>Electricity prices for end uses by sector</td>
</tr>
<tr>
<td>Renewable</td>
<td>WRENEW</td>
<td>Output variables</td>
</tr>
<tr>
<td>Coal</td>
<td>COALOUT</td>
<td>Output variables</td>
</tr>
<tr>
<td>Coal</td>
<td>COALREP</td>
<td>Reporting variables</td>
</tr>
<tr>
<td>Coal</td>
<td>COALPRC</td>
<td>Coal prices to utilities</td>
</tr>
<tr>
<td>Coal</td>
<td>USO2GRP</td>
<td>Coal output by emission categories for ECP interface</td>
</tr>
<tr>
<td>Petroleum</td>
<td>PMMOUT</td>
<td>Output variables</td>
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<tr>
<td>Petroleum</td>
<td>PMMRPT</td>
<td>Reporting variables</td>
</tr>
<tr>
<td>Oil &amp; Gas Supply</td>
<td>OGSMOUT</td>
<td>Output variables</td>
</tr>
<tr>
<td>Natural Gas Transmission &amp;</td>
<td>NGTDMOOUT</td>
<td>Output variables</td>
</tr>
<tr>
<td>Distribution</td>
<td>NGTDMREP</td>
<td>Reporting variables</td>
</tr>
<tr>
<td>Natural Gas Transmission &amp;</td>
<td>NGRPT</td>
<td>Supplementary reporting variables</td>
</tr>
<tr>
<td>International</td>
<td>INTOUT</td>
<td>Output variables</td>
</tr>
</tbody>
</table>

**Energy Market Data Representation**

The Energy Market Data define the energy quantity and price variables for NEMS. These variables are the principal values subject to convergence testing in the integrating algorithm. The Energy Market Data are part of the NEMS Global Data Structure and are stored in the following common blocks:
QBLK   Energy consumption quantities by fuel and sector
MPBLK   Energy prices by fuel and sector, excluding any carbon dioxide fees in effect
AMPBLK   Energy prices by fuel and sector, including any carbon dioxide fees in effect
MXQBLK   Expectations for energy consumption quantities
MXPBLK   Expectations for energy prices

The quantity and price structure does not attempt to represent all energy flows, but instead focuses on the primary variables necessary for the design of the NEMS equilibrating methodology. In addition, the Energy Market Data structure defines the fuel and sectoral energy classification for the NEMS energy balance.

Table 4 presents a list of the arrays storing the energy consumption quantities by fuel and sector. Each item in the table represents a named variable in NEMS. The sectoral definitions include the four end-use sectors and three conversion sectors. The sectoral and fuel consumption detail is defined to meet several objectives, including energy accounting coverage and consistency, the structure of component modules, and the requirements for inter-module communications. Elements of this design requiring clarification are as follows:

- The electricity sector includes fuel used by electric utilities and other firms whose primary business is to produce power. The industrial and commercial sectors include fuel used for on-site electricity generation, primarily in cogeneration applications. This breakout is consistent with the coverage of the Electricity Market Module and the demand modules.

- Fuel consumption in the refinery sector is broken out from the industrial sector for inter-module communication requirements. The Petroleum Market Module determines fuel use by the refinery sector. This information is passed to Industrial Demand Module, where fuel consumption for refining is added to other industrial fuel use. Thus, the industrial energy consumption product demands as defined in Table 4 include refinery consumption.

Table 5 presents a list of arrays storing the prices in the Energy Market Data structure. In general, the energy prices match the corresponding consumption quantities. The exceptions are as follows:

- Detailed refinery sector prices are omitted even though refinery fuel quantities are defined. This is because there is no corresponding need to break out refinery sector prices from the rest of the industrial sector. The industrial fuel prices are the delivered prices to industrial fuel consumers, including refineries. As a result, the industrial sector prices match the coverage of the corresponding industrial consumption quantities.

- Prices for some industrial petroleum categories are combined in the industrial other petroleum category to eliminate unnecessary detail. That is, the industrial other petroleum price is defined as the average price of three consumption categories: still gas, petroleum coke, and other petroleum. The other petroleum price is not needed by any NEMS module but is required for reporting purposes to determine the average price of all petroleum products.
Delivered prices for renewable energy categories are left undefined because there are no meaningful market prices for them. For example, there are no delivered prices associated with hydroelectric, geothermal, wind, solar thermal, and photovoltaic energy sources. In the case of biomass, the diverse nature of the product and the lack of organized market structures preclude the definition of a delivered price. Thus, there is no need to define end-use prices for renewables.

Table 4 and Table 5 also define the variable names for the NEMS consumption quantities and prices, along with the two-character product code mnemonic for each product. Each array is a two-dimensional, floating point array. The first dimension represents the nine Census divisions, with a tenth position originally reserved for possible breakout of California, and an eleventh position reserved for the National total. The second dimension represents 36 years from 1990 to 2025. Quantities are stored in trillions of Btu. Prices are stored in 1987 dollars per million Btu, as deflated by the chain-weighted price deflator for Gross Domestic Product.

A related part of the Energy Market Data structure comprises the variables to hold energy market expectations. The Integrating Module maintains a separate set of arrays to store consumption and price expectations. The expectations arrays are updated according to the foresight options under consideration. The expectations arrays are defined like the standard energy market arrays, each with an additional leading character, X. Not all energy product detail is duplicated.

### Restart File

At the beginning of a run, the Integrating Module reads initial values for all data in the Global Data Structure from a user-specifiable version of a special file, called the Restart file. The Restart file contains a starting point for the scenario currently under consideration, consisting of results from a prior simulation. During the run, much of this data is updated and changed. For example, alternative values for key module parameters and input assumptions, read separately from the user interface file or other sources, override the values stored in the Restart file. At the end of the run, a new Restart file is created with all the data from the run. The file is available for future runs, as well as to link with reporting and database management routines.

This feature promotes modularity by supplying values for all shared variables, regardless of whether the module that creates them is active in the run. Prices, quantities demanded or supplied, and other variables normally generated by a module that is switched off for the current run are provided instead by the Restart file.

A database subroutine called FILER is used to store and retrieve the NEMS Global Data Structure as represented in the NEMS restart file. The global data is structured into groups of variables known as “common blocks.” The FILER routine moves data between common block memory and disk storage. The NEMS modules may access data from, and write results to the common block variables once the data is loaded into memory. The basic capabilities of FILER are:

- To load data from a file into a standard NEMS common block; and
- To write data from a standard NEMS common block to a file.
Table 4. Arrays Storing Quantities of Energy Consumed by Fuel and Sector

<table>
<thead>
<tr>
<th>Description</th>
<th>End-Use Sectors</th>
<th>Conversion Sectors</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Resd. (Q_RS)</td>
<td>Comm. (Q_CM)</td>
<td>Tran. (Q_TR)</td>
</tr>
<tr>
<td>Purchased Electricity, Peak</td>
<td>QEFRS</td>
<td>QEPCM</td>
<td>QEPTR</td>
</tr>
<tr>
<td>Purchased Electricity, Off-Peak</td>
<td>QENRS</td>
<td>QENCm</td>
<td>QENTR</td>
</tr>
<tr>
<td>Purchased Electricity (total)</td>
<td>QELRS</td>
<td>QELCM</td>
<td>QELTR</td>
</tr>
<tr>
<td>Natural Gas, Firm</td>
<td>QGFRS</td>
<td>QGFCM</td>
<td>QGFTR</td>
</tr>
<tr>
<td>Natural Gas, Interrupt.</td>
<td>QGIRS</td>
<td>QGICM</td>
<td>QGITR</td>
</tr>
<tr>
<td>Natural Gas (total)</td>
<td>QNGRS</td>
<td>QNGCM</td>
<td>QNGTR</td>
</tr>
<tr>
<td>Natural Gas, Pipeline Fuel Lease and Plant Fuel</td>
<td>QCLRS</td>
<td>QCLIN</td>
<td>QCLRF</td>
</tr>
<tr>
<td>Steam Coal</td>
<td>QCLRS</td>
<td>QCLIN</td>
<td>QCLRF</td>
</tr>
<tr>
<td>Motor Gasoline</td>
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<td>QMGTR</td>
<td>QMGIN</td>
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<td>QDSRS</td>
<td>QDSCM</td>
<td>QDSIN</td>
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<td>QKSCM</td>
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<td>Kerosene</td>
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<td>QGFTR</td>
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<td>Residual Fuel, Low Sulfur</td>
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<td>QGICM</td>
<td>QGITR</td>
</tr>
<tr>
<td>Residual Fuel, High Sulfur</td>
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<td>QNGCM</td>
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<td>QCLRF</td>
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<tr>
<td>Petrochemical Feedstocks</td>
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<td>QCLRF</td>
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<tr>
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<td>QCLRF</td>
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<td>QCLRF</td>
</tr>
<tr>
<td>Other Petroleum</td>
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<td>QCLIN</td>
<td>QCLRF</td>
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<tr>
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<td>QTPCM</td>
<td>QTPTR</td>
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<td>QBMF</td>
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<td>QBMF</td>
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<td>QBMF</td>
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<td>QBMCM</td>
<td>QBMF</td>
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<tr>
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<td>QMBRS</td>
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<td>QBMF</td>
</tr>
<tr>
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<tr>
<td>Solar Thermal</td>
<td>QMBRS</td>
<td>QBMCM</td>
<td>QBMF</td>
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<td>Photovoltaic</td>
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<td>QBMCM</td>
<td>QBMF</td>
</tr>
<tr>
<td>Wind</td>
<td>QMBRS</td>
<td>QBMCM</td>
<td>QBMF</td>
</tr>
<tr>
<td>Total Renewable</td>
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<td>QBMCM</td>
<td>QBMF</td>
</tr>
<tr>
<td>Net Electricity Imports</td>
<td>QMBRS</td>
<td>QBMCM</td>
<td>QBMF</td>
</tr>
<tr>
<td>Net Coal Coke Imports</td>
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<td>QBMF</td>
</tr>
<tr>
<td>Total Sectoral Consumption</td>
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<td>QBMCM</td>
<td>QBMF</td>
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</table>

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Table 5. Arrays Storing Prices of Energy by Fuel and Sector

<table>
<thead>
<tr>
<th>Description</th>
<th>Resd. (P_RS)</th>
<th>Comm. (P_CM)</th>
<th>Tran (P_TR)</th>
<th>Indus. (P_IN)</th>
<th>Elect. (P_EL)</th>
<th>All (P_AS)</th>
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<tbody>
<tr>
<td>Purchased Electricity, Peak</td>
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<td>PEPTR</td>
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<td>PENIN</td>
<td>PEPAS</td>
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<tr>
<td>Purchased Electricity, Off-Peak</td>
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<td>PENCM</td>
<td>PENTR</td>
<td>PENIN</td>
<td>PENIN</td>
<td>PENAS</td>
</tr>
<tr>
<td>Purchased Electricity (average)</td>
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<td>PELCM</td>
<td>PELTR</td>
<td>PELIN</td>
<td>PELIN</td>
<td>PELAS</td>
</tr>
<tr>
<td>Natural Gas, Firm</td>
<td>PGFRS</td>
<td>PGFCM</td>
<td>PGFTR</td>
<td>PGFIN</td>
<td>PFGFEL</td>
<td>PGFAS</td>
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<tr>
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<td>PGICM</td>
<td>PGITR</td>
<td>PGIIN</td>
<td>PGIEL</td>
<td>PGIAS</td>
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<td>Natural Gas (average)</td>
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<td>PNGCM</td>
<td>PNGTR</td>
<td>PNGIN</td>
<td>PNGEL</td>
<td>PNGAS</td>
</tr>
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<tr>
<td>Steam Coal</td>
<td>PCLRS</td>
<td>PCLCM</td>
<td>PCLIN</td>
<td>PCLEL</td>
<td>PCLAS</td>
<td></td>
</tr>
<tr>
<td>Metallurgical Coal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor Gasoline</td>
<td>PMGCM</td>
<td>PMGTR</td>
<td>PMGIN</td>
<td>PMGAS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jet Fuel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distillate</td>
<td>PDSRS</td>
<td>PDSCM</td>
<td>PDSTR</td>
<td>PDSIN</td>
<td>PDSEL</td>
<td>PDSAS</td>
</tr>
<tr>
<td>Kerosene</td>
<td>PKSRS</td>
<td>PKSCM</td>
<td>PKSIN</td>
<td>PLSAS</td>
<td>PLSAS</td>
<td></td>
</tr>
<tr>
<td>Liquid Petroleum Gas</td>
<td>PLGRS</td>
<td>PLGCM</td>
<td>PLGIN</td>
<td>PLGAS</td>
<td>PLGAS</td>
<td></td>
</tr>
<tr>
<td>Residual Fuel, Low Sulfur</td>
<td>PRLCM</td>
<td>PRLTR</td>
<td>PRLIN</td>
<td>PRLAS</td>
<td>PRLAS</td>
<td></td>
</tr>
<tr>
<td>Residual Fuel, High Sulfur</td>
<td>PRSCM</td>
<td>PRHTR</td>
<td>PRSEL</td>
<td>PRHAS</td>
<td>PRHAS</td>
<td></td>
</tr>
<tr>
<td>Residual Fuel (average)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petrochemical Feedstocks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asphalt and Road Oil</td>
<td>PRSTR</td>
<td>PRSTR</td>
<td>PRSTR</td>
<td>PRSTR</td>
<td>PRSTR</td>
<td></td>
</tr>
<tr>
<td>Other Petroleum</td>
<td>POTTR</td>
<td>POTPIN</td>
<td>POTPIN</td>
<td>POTPIN</td>
<td>POTPIN</td>
<td>POTPIN</td>
</tr>
<tr>
<td>Petroleum(average)</td>
<td>PTPTR</td>
<td>PTPIN</td>
<td>PTPIN</td>
<td>PTPIN</td>
<td>PTPIN</td>
<td>PTPIN</td>
</tr>
<tr>
<td>Methanol</td>
<td>PMETR</td>
<td>PETTR</td>
<td>PETTR</td>
<td>PETTR</td>
<td>PETTR</td>
<td>PETTR</td>
</tr>
<tr>
<td>Ethanol</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Liquid Hydrogen</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uranium</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This capability is constructed such that files created by FILER (restart files) can also be read by FILER. In addition, FILER can be used to extract subsets of data and create text files or spreadsheets. It can also be used to initialize new global variables with starting values. Generally, FILER is not used for input of most exogenous data in NEMS. The procedure incorporates a data dictionary to define the variables in the Global Data Structure. User access to the FILER program is available outside NEMS through the NEMS script command, TFILER.
4. Integrating Module Solution Methodology

The Integrating Module controls the NEMS solution algorithm, executing the NEMS component modules iteratively in an attempt to achieve an energy market equilibrium each projection year. Using the Energy Market Data portions of the NEMS Global Data Structure as its inputs, the Integrating Module tests whether convergence has occurred, and optionally adjusts the solution values to aid the convergence process. The Integrating Module also manages the storage of global data and the access to input and output files. Finally, the integrating module includes an emission policy submodule to calculate carbon dioxide emissions and implement some emissions control options that cut across all of NEMS.

Solution Algorithm

The modules in NEMS represent the demand, supply, and conversion segments of the energy market, as well as modules to represent the economy as a whole and international oil market feedbacks. In effect, these modules can be thought of as representing a set of energy supply and demand curves. That is, the supply and conversion modules determine prices and sources of supply, given the quantity of fuel demanded. The demand and conversion models determine the fuel demands, given the prices of those fuels. The solution algorithm attempts to determine a vector of fuel prices and quantities so that supply and demand curves in all fuel markets equilibrate. That is, a solution occurs when energy demands and prices, along with the macroeconomic variables, reach stable, convergent values.

To reach such a solution, the integrating module is essentially solving a set of simultaneous equations implied by the supply, demand, and conversion modules. The approach used is an application of the Gauss-Seidel algorithm designed to solve a set of simultaneous, nonlinear equations. In effect, the approach partitions the equations and variables into subsets. For NEMS, the subsets consist of predefined fuel supply, energy conversion, and sectoral demand modules. Each subset of equations is solved keeping the other variables constant at their trial values and ignoring the effects of current variables on equations in other subsets. The process is repeated for each subset, updating the trial values for each variable from the prior solution.

More formally, for a stylized NEMS, the nonlinear system of equations could be represented by

\[ x_i = g_i(x_{i-1}, \ldots, x_{i-1}, x_{i+1}, \ldots, x_n) \quad \text{for} \quad i = 1, \ldots, n \]  \hspace{1cm} (4)

having the market clearing or equilibrium solution vector

\[ x = (x_1, \ldots, x_n). \]

The solution process assumes a set of initial values, denoted \( x^0 \), where

\[ x^0 = (x_1^0, \ldots, x_n^0). \]

A trial solution for iteration \( k \) for a certain year is denoted by \( x^k \), where

\[ x^k = (x_1^k, \ldots, x_n^k). \]
Each \( g_i(x) \) uses one or more of the elements of the trial solution vector \( x^k \), excluding its own solution, \( x_i^k \).

A solution iteration \( k \) begins with the evaluation of \( g_1 \) and continues solving each \( g_i \), ending with \( g_n \). The solution of \( g_i \) in iteration \( k \) updates the solution estimate to

\[
\begin{align*}
x &= (x_1^k, x_2^k, ..., x_{i-1}^k, x_i^k, x_{i+1}^{k-1}, ..., x_n^{k-1}).
\end{align*}
\]

The updating process continues until an iteration-\( k \) trial solution is derived for all \( x_i \).

After evaluating \( g_i^k \), the values of the solution variables are compared to the values from iteration \( k-1 \). A final solution, \( x^k \), has been achieved if, after all modules have been executed, the absolute values of the proportional changes in the \( x_i \) remain smaller than a specified tolerance, \( \varepsilon \):

\[
\left| \frac{x_i^k - x_i^{k-1}}{(x_i^k + x_i^{k-1})/2} \right| < \varepsilon
\]

for \( i = 1, ..., n \). Values of \( \varepsilon \) can be chosen on a variable-specific basis. The typical values used are in the range of 4 percent for the Census division variables, less for the national macroeconomic variables.

After the convergence criteria have been met, another iteration is performed to test whether the solution is stable and to allow the modules to perform final processing for the year. As a result, the final converged solution vector for the year is \( x^{k+1} \).

A procedure referred to as “relaxation” is used to control the equilibration process and aid in resolving some convergence problems. If the relaxation option is selected, changes in values of convergence variables between iterations are dampened by a user-specified factor. The selection of appropriate relaxation parameters may speed convergence and lead to a more stable and robust solution process. The relaxation assignment statement is of the form:

\[
x_i^k = x_i^{k-1} + r_i^k (x_i^k - x_i^{k-1})
\]

where \( r_i^k \) = relaxation factor for a convergence variable \( i \) for iteration \( k \). Note that the specification of relaxation factors is variable-specific and iteration specific. The capability to specify varying relaxation fractions, depending on the iteration number, is available as an option. This feature is used to allow greater dampening after the first few iterations. Convergence parameters, including the tolerances and relaxation fractions for each variable, are specified through the input file \texttt{mnenvrg.txt}.

To handle cases where the procedure does not converge on a solution or does not achieve the specified tolerance, a limit on the number of iterations terminates the algorithm for the current year. In such cases, the model performs the additional iteration mentioned in the previous paragraph, reports the convergence status with a list of the variables failing to converge, and then proceeds to the next projection year. The final solution for the year is therefore the result of one iteration beyond the non-converged trial solution.
The equations are partitioned in the fuel supply and sectoral demand modules, with the solution variables \((x_i)\) consisting primarily of quantities and prices of fuels by region and consuming sector. To illustrate the regional and sectoral detail, these variables are redefined as follows:

\[
\begin{align*}
P^k_{f,s,r,y} &= \text{Energy price (current iteration)} \\
P^{k-1}_{f,s,r,y} &= \text{Energy price (previous iteration)} \\
Q^k_{f,s,r,y} &= \text{Energy quantity consumed (current iteration)} \\
Q^{k-1}_{f,s,r,y} &= \text{Energy quantity consumed (previous iteration)} \\
\end{align*}
\]

indices:

- \(f\) fuel/energy product (natural gas, coal, petroleum products, electricity, etc.)
- \(s\) consuming sector (residential, commercial, industrial, transportation, electric generation, refinery)
- \(r\) region (nine Census divisions)
- \(y\) year

Several modules simulate planning decisions to acquire additional capacity that will be required in future years. These include the Electricity Capacity Expansion (ECP) submodule, the pipeline capacity decisions for natural gas, and the refinery capacity decisions in the Petroleum Market Module.

To simulate such decisions, information on future demands and prices must be assumed. While each module solves one year at a time, their simulations of planning activities involve an extrapolation of energy market conditions. Those modules making new capacity construction decisions apply an assumption about foresight in their expectations of future energy prices and quantities. In NEMS, a set of price and quantity variables is defined to store expectations:

\[
\begin{align*}
XP_{f,s,r,y}^\gamma &= \text{Expected prices of energy products beyond the current forecast year (for } \gamma > y) \\
XQ_{f,s,r,y}^\gamma &= \text{Expected consumption of energy products beyond the current forecast year} \\
\end{align*}
\]

The foresight mode determines how the expectation variables are to be calculated: under myopic foresight, the expected values are simply held constant at their current trial values. For adaptive expectations, the Integrating Module calculates minor extrapolations of present-year conditions. Foresight is therefore always calculated by looking forward to the consequences of conditions in the present iteration year, not by attempting to reach some end state determined \textit{a priori}. The treatment of expectations is discussed in greater detail under \textbf{Expected Value Foresight}.

Additional variables, representing such values as macroeconomic activity, world oil prices and trade, and emissions, may be added to the convergence algorithm, but are omitted here for clarity. In terms of the energy market interactions, the sectoral demand models estimate current-year energy demands \(Q_{f,s,r,y}\) and energy-related capital stock additions as functions of current and
expected energy prices. The supply models estimate end-use prices $P_{f,s,r,y}$ and capacity additions as functions of current and expected energy demands. The conversion modules (electricity and refinery) are viewed primarily as supply components, but they are both consumers of primary energy and suppliers of energy products.

For some model components, a rational expectations, or “perfect foresight” approach is used implicitly or explicitly. Where these approaches are used, expectations for future years are defined by the realized solution values for these years in a prior run. This approach is used, for example, for the energy demand expectations used for capacity planning of energy infrastructure (pipelines and refineries). The other area is for market-based approaches to limit carbon dioxide emissions, where knowledge of future emission taxes or permit prices is assumed to be known in advance.

Cycles. To solve NEMS with perfect foresight structures, an added dimension, or super loop, to the convergence procedure was developed. This extension to the solution algorithm involves the iterative execution of complete NEMS runs (i.e., single passes through all of the projection years). Each such pass through NEMS is referred to as a cycle. Previously, a NEMS run was initiated from some prior run’s restart file, and a series of individual runs was made by “cycling” the output restart from one run as the input restart file for the next run. This process improved convergence and was used to resolve perfect foresight expectations. When this process became routine, the cycling of runs was automated as part of a single NEMS “batch job.” Now, a NEMS batch job consists of a multiple set of individual runs of NEMS, with the output restart file of each run used as input restart file to the next run. Each such run in the series is referred to as a “cycle.”

Cycles are analogous to the convergence iterations used to solve NEMS for a single year. Solution values for successive cycles are compared to determine if expected values (from the prior cycle) and realized values (from the current cycle) converge. This procedure has been implemented through a run-cycling option, controlled by an “intercycle convergence check.” Operationally, this involves a Korn shell script (or batch command process) that repeatedly executes NEMS, automatically cycling the output restart file for one run to be used as the input restart file for the next run. A program (outside of NEMS, per se), known as “intercv” performs the intercycle convergence checks and scores the degree of intercycle convergence using a qualitative metric (discussed more below). It is typical, then, to run NEMS in sets of 4-to-10 cycles to achieve inter-cycle convergence. In addition, a relaxation procedure, similar to the single-year relaxation procedure, can be applied to speed up convergence between cycles.

Another reason for introducing this run-cycling loop to NEMS runs was the need to implement a direct link to an external macroeconomic model—the Global-Insight Model (starting with AEO2003). The Global-Insight model, written using the “Eviews” modeling software, could not be integrated into NEMS, nor could it be configured to execute for a single projection year. As a result, the Global-Insight model is launched from NEMS as a separate, executable process (known as a “child process” in operating system terminology) during the first simulation year of NEMS. Global-Insight executes for the entire projection period, using as its NEMS inputs the results from the input restart file. While the Global-Insight model executes, NEMS execution is suspended and resumes when the Global-Insight model finishes. NEMS then captures the
Global-Insight macroeconomic outputs for the entire projection period and applies the outputs within the current NEMS cycle.

Solution Algorithm—Detailed Flow Outline

Figure 3 presents an outline of the Integrating Module algorithm to illustrate the logical organization and flow.\(^2\)

**Figure 3. NEMS Integrating Module Outline**

<table>
<thead>
<tr>
<th>I. Read Run Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>II. Read Global Data from a Prior Run via the run's RESTART file</td>
</tr>
<tr>
<td>III. <strong>Year Loop -- “DO CURIYR = FIRSYR, LASTYR”</strong> (e.g., Year Index CURIYR goes from 1 to 31 usually, representing calendar years 1990 to 2025; however, most models bypass history years prior to their base year.)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>A. Set Maximum Convergence Iterations (MAXITR) For Current Year (CURIYR)</td>
</tr>
<tr>
<td>1. MAXITR = MAXITRJR (History Years)</td>
</tr>
<tr>
<td>2. MAXITR = MAXITRISR (Forecast Years)</td>
</tr>
<tr>
<td>B. <strong>Convergence Iteration Loop -- “While CURITR&lt;=MAXITR &amp; CTEST=0”</strong> (i.e., while Iteration Count CURITR is less than or equal to the maximum, MAXITR, and the global convergence test has failed)</td>
</tr>
<tr>
<td>1. Store the convergence-variable values for post-run convergence checks and reporting</td>
</tr>
<tr>
<td>2. <strong>Model Loop -- Do IMODEL = 1, NMODEL</strong> (model number goes from 1 to 12). Usual model execution order is:</td>
</tr>
<tr>
<td>1. International</td>
</tr>
<tr>
<td>2. Macroeconomic</td>
</tr>
<tr>
<td>3. Coal</td>
</tr>
<tr>
<td>4. Residential</td>
</tr>
<tr>
<td>5. Commercial</td>
</tr>
<tr>
<td>6. Industrial</td>
</tr>
<tr>
<td>7. Transportation</td>
</tr>
<tr>
<td>8. Electricity</td>
</tr>
<tr>
<td>9. OGSM</td>
</tr>
<tr>
<td>10. NGTDM</td>
</tr>
<tr>
<td>11. Refinery (PMM)</td>
</tr>
<tr>
<td>12. Renewables</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Is Model Switched On? If Yes:</td>
</tr>
<tr>
<td>i. Update expectation variables</td>
</tr>
<tr>
<td>ii. Replace “previous-values” with “current values” to prepare for model-specific convergence check</td>
</tr>
<tr>
<td>iii. Call Model's main subroutine (e.g., CALL NGMAIN for module NGTDM)</td>
</tr>
<tr>
<td>iv. Check convergence. Do “current values” differ from “previous values” by more than the allowed tolerance? If yes: Assign 0 to CNTTEST(imodel); else assign 1.</td>
</tr>
<tr>
<td>v. Relaxation: if option is on (IRELAX=1) and this model is not converged (CNVTST(imodel)=0), then relax convergence variables by setting values between current and previous values based on the relaxation fraction</td>
</tr>
<tr>
<td>vi. Apply carbon price to adjusted end-use energy prices (if carbon-pricing applicable)</td>
</tr>
<tr>
<td>3. Run Emissions Module: Calculate carbon emissions; set new carbon price if applicable</td>
</tr>
<tr>
<td>4. Did All Modules Pass Convergence Test? (CNVTST(IMODEL)=1 for IMODEL= 1 to 12) If so, set CTEST to 1 so as to trigger exit from Convergence/Iteration while-loop</td>
</tr>
<tr>
<td>C. <strong>Final Convergence Loop:</strong> Run all models another time to make sure solution remains converged and to allow models to calculate summary results for reports.</td>
</tr>
<tr>
<td>1. <strong>Model Loop -- Do IMODEL = 1, NMODEL</strong> (see details above)</td>
</tr>
<tr>
<td>2. Run Emissions Policy Submodule</td>
</tr>
<tr>
<td>D. Optional Reporting Loop</td>
</tr>
<tr>
<td>1. Run those models that have reporting subroutines that store/write results without any recalculation.</td>
</tr>
<tr>
<td>2. On last year only: call Household Expenditure Model if residential model turned on.</td>
</tr>
<tr>
<td>IV. Write out Global Data to new RESTART File</td>
</tr>
</tbody>
</table>

\(^2\)Not reflected is the run-cycling that is used to resolve perfect foresight expectations and to integrate the external Global Insight model with NEMS.
The outline depicts the three nested levels of looping to implement the convergence algorithm within a single run or cycle. Looping over the projection years takes place in the outer-most of these loops (see Section III in Figure 3). The objective of the algorithm is to execute the system of component modules repeatedly until convergence is reached in a given year and the solution remains converged for a subsequent iteration. This is reflected in the convergence iteration loop (see Section III.B in Figure 3).³

The solution procedure for one convergence iteration involves looping over the twelve component modules (see Section III.B.2 in Figure 3). If a module is switched on, six steps are executed. (See items III.B.2.i to III.B.2.vi in Figure 3). The component modules include the International Energy Activity Module, the Macroeconomic Activity Module, the four sectoral demand models, the conversion models, and the supply models. The order of execution of the modules was designed to be flexible; in practice, however, the execution sequence has remained as indicated in the outline.

Before a module is executed, the current quantities and prices (denoted k) are stored as the previous iteration values (denoted k-1) in preparation for the post-module convergence check (outline Section III.B.2.ii in Figure 3):

\[
Q_{f,s,r,y}^{k-1} = Q_{f,s,r,y}^k, \\
P_{f,s,r,y}^{k-1} = P_{f,s,r,y}^k
\]

The post-module convergence test (see outline Section III.B.2.v in Figure 3) identifies the specific modules whose output variables are not converged. While a single convergence test could be made after all modules were executed, these intervening, or post-module checks are used to determine whether the relaxation algorithm for the modules' output variables is performed. Once all modules are finished, an additional global convergence check exams the test results for all of the individual modules (outline Section III.B.4 in Figure 3). If this global convergence test passes, the trial solution is considered converged pending a final iteration to test stability.

Separate convergence checks are made for prices and quantities, consisting of a comparison of the absolute value of the percent changes to an assumed tolerance, ε, as follows:

\[
\left| \frac{Q_{f,s,r,y}^k - Q_{f,s,r,y}^{kl}}{(Q_{f,s,r,y}^k + Q_{f,s,r,y}^{kl})/2} \right| < \varepsilon
\]

\[
\left| \frac{P_{f,s,r,y}^k - P_{f,s,r,y}^{kl}}{(P_{f,s,r,y}^k + P_{f,s,r,y}^{kl})/2} \right| < \varepsilon
\]

³ For simplicity, the outline omits a convergence stability “while” loop that continues processing until the solution remains converged for two iterations or the maximum iterations is reached.
In the convergence tests, the denominators use an average to avoid convergence difficulties if either the starting value or a trial solution value is equal to zero. To avoid unnecessary iterations for changes in insignificant values, the quantity convergence check is ignored for changes less than a user-specified minimum level (normally set at 10 trillion Btus).

If the post-module convergence test fails, an optional relaxation of the variables is performed (outline Section III.B.v in Figure 3), meaning that the variables are reset part way between the current and previous iteration’s values.

The convergence iteration loop (outline Section III.B in Figure 3) is repeated until convergence is achieved or until the maximum number of iterations is reached. When one of these two conditions occurs, an additional iteration, referred to as the “Final Convergence and Reporting Loop” is executed (outline Section III.C in Figure 3). This has several purposes. First, it is used to test whether a solution meeting the convergence criteria is maintained on two successive iterations. If so, there is a greater likelihood that the solution is a stable, or equilibrium, solution. Second, it provides a signal for each module to summarize final results and write out reporting data out to disk. If the variables fail to converge on the Final Convergence and Reporting Loop, the convergence algorithm continues. In such cases, the model may converge on a subsequent iteration, thus triggering the Final Convergence and Reporting Loop a second time. Because of this, an optional reporting-only loop was added (see end of outline Section III.D in Figure 3) to call modules that have independent reporting routines that do not require model re-execution. This also allows modules to access the final solution variables for other modules to use in their reports.

Whenever convergence fails to occur within the user-specified number of iterations, the model completes the Final Convergence and Reporting Loop, accepts the resulting solution as the final solution, and proceeds to the next projection year. A nonconverged final solution should be examined to assess its validity.

Several information sources are generated to aid in convergence analysis. The NEMS console output, directed to a file “nohup.out,” constitutes an execution log for the run. This log records the progress of the model and the convergence status after execution of each module. Also reported are the names of any variables failing to converge, along with their values on the current and previous iterations, and their fractional changes. If the values of any tested variables fail to converge within the specified number of iterations, a message is written to the execution log, and execution continues with the next year. During or after a model run, the user may review the execution log to examine the convergence status.

A summary log (named “maindbug”) is written to show the convergence status for each projection year, along with up to 25 variables that failed to converge. In addition, database of

---

4 Generally, the highest setting used for this limit on iterations (MAXITR) is 9. With an additional iteration allowed for the final iteration and reporting loop, up to 10 iterations are performed. Since many convergence failures involve oscillations between two values, an even number of iterations ends on roughly the same trial solution values on each cycle. To more accurately reflect this type of convergence problem in the inter-cycle convergence tests, “MAXITR+1” should be an odd number, so MAXITR should be set by the user as an even number.
variable values by iteration is generated optionally in a direct-access, binary format. That file (mnpqit.daf) can be accessed through a utility program “readda” that will output a subset of convergence variables in a text format.

When a nonconvergent situation arises, the results of the run must be viewed with caution. An assessment should be made as to the type of convergence problem and its effect on the results. A failure to converge may indicate a programming error, or it may be an accurate reflection of the modeling configuration. Generally, convergence problems must be evaluated on a case-by-case basis.

Similarly, the state of inter-cycle convergence must also be assessed to insure that expectation and realized values have converged, particularly for runs with carbon dioxide and mercury emissions constraints. A focus of this type of convergence analysis is typically on the generating capacity additions projected by the Electricity Market Module and the resulting impacts on the rest of the model.

**Convergence Metric**

Often, it is difficult to judge how important the detailed, regional convergence failures are, as they are implemented on a pass-fail basis. That is, an all-or-nothing convergence test does not give one a sense of how poorly or how well the run is converged. A qualitative metric for convergence is presented in a NEMS output report (Ftab table 150) as an aid in evaluating the degree of convergence. The metric, known as the convergence test Grade Point Average (GPA) scores the convergence tests on a 4-point, academic-style grading scale. With this idea, a run's convergence status is revealed with a single number associated with a sense of quality: a 4.0 GPA is a straight-A average, for example. A run with a convergence GPA of 2.0 passes with a solid C, while a GPA of 1.0 gets a D: a poor, but passing, grade. This heuristic grading scale is derived using a weighted average of the absolute value of percentage differences in convergence variables, aggregated across sectors and regions. The convergence GPA is calculated as follows:

1) Group the convergence variables into five categories:

   End-Use Sector Energy Consumption Quantities
   Electric Power Energy Consumption Quantities
   End-Use Sector Energy Prices
   Electric Power Energy Price
   Environmental Permits/Allowance Prices: Carbon dioxide, sulfur dioxide, and mercury

2) Compute deviations for convergence variables for each fuel, region, and sector in year. Let

   \[ \text{DEV}_{f,r,s,y} = \text{Absolute value of deviation in a convergence variable: fuel } f, \text{ region } r, \text{ sector } s, \text{ year } y, \text{ where a deviation is one of the following:} \]

   a) Quantity deviation: absolute value of \{the current quantity less the previous quantity\}
b) Price deviation: absolute value of the current expenditure (i.e., price times quantity) less the previous expenditure (excluding any permit price adders)

c) Emission allowance price deviation: absolute value of the current allowance price less the previous allowance price.

PREV_{f,r,s,y} = Previous value for a convergence variable: fuel f, region r, sector s, year y

3) Aggregate the deviations (DEV) across regions, fuels, and sectors in each of the five categories, c, and express the deviations as percentage of the corresponding prior values (PREV). Let AC_{c,y} = the aggregated change (or deviation) for category c and year y, expressed as a percentage. That is:

\[ AC_{c,y} = \frac{\sum_{f} \sum_{r} \sum_{s} DEV_{f,r,s,y}}{\sum_{f} \sum_{r} \sum_{s} PREV_{f,r,s,y}} \times 100. \]

for all fuels f and sectors s that belong in category c.

4) Compute a composite score by averaging the aggregated changes (AC) of the 5 sections, using the following weights (the basis for the values is described further below):

<table>
<thead>
<tr>
<th>Category</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-Use Sector Energy Consumption Quantities</td>
<td>10</td>
</tr>
<tr>
<td>Electric Power Energy Consumption Quantities</td>
<td>10</td>
</tr>
<tr>
<td>End-Use Sector Energy Prices</td>
<td>10</td>
</tr>
<tr>
<td>Electric Power Energy Price</td>
<td>10</td>
</tr>
<tr>
<td>Environmental Permits</td>
<td></td>
</tr>
<tr>
<td>Carbon dioxide (if applicable)</td>
<td>40</td>
</tr>
<tr>
<td>Sulfur dioxide</td>
<td>10</td>
</tr>
<tr>
<td>Mercury (if applicable)</td>
<td>10</td>
</tr>
</tbody>
</table>

5) Scale or grade the composite score into a grade point average (GPA), by interpolating the score from the following table:

<table>
<thead>
<tr>
<th>Score (% basis)</th>
<th>Grade on 4-pt scale</th>
<th>Letter Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.5</td>
<td>4.0</td>
<td>A</td>
</tr>
<tr>
<td>2.0</td>
<td>3.0</td>
<td>B</td>
</tr>
<tr>
<td>5.0</td>
<td>2.0</td>
<td>C</td>
</tr>
<tr>
<td>10.0</td>
<td>1.0</td>
<td>D</td>
</tr>
<tr>
<td>15+</td>
<td>0.01</td>
<td>F</td>
</tr>
</tbody>
</table>

The weights and the stringent grading scale tend to magnify the importance of common convergence problems. When applicable, the carbon dioxide price is a critical item for convergence since it affects the effective delivered prices of all fossil fuels, changing the absolute
and relative prices of natural gas, coal, and petroleum. The carbon dioxide price also greatly influences electric power capacity decisions and macroeconomic feedbacks, so stability in this price is essential for inter-cycle convergence. Therefore, the carbon dioxide price deviation is given a strong weight in the grading. Fuel demands and prices in the electric power are also given a relatively strong weight in the scoring. Flexibility in electric power fuel demands, the use of linear programs for plant dispatch and capacity choice, and complex interactions with the coal supply due to environmental constraints all tend to foster convergence difficulties in this sector. The capacity choices influenced by expectations are a primary source of inter-cycle convergence problems.

The cycling of NEMS runs is programmed to continue for a user-specified number of iterations or until the inter-cycle convergence objective has been met. The objective is based on the average of the three lowest (worst) yearly GPAs. If this average GPA is lower than the user-specified minimum, the cycling continues. Otherwise, the cycling stops.

**Discontinuities and Convergence Problems in NEMS**

The characterization of NEMS as a set of supply and demand curves provides a useful framework for discussing convergence properties. Though supply and demand curves are generally treated as continuous functions, various NEMS modules contain linear programs or their analogues that result in discontinuities. Such discontinuities cause significant problems in the solution process.

Several modules incorporate algorithms that yield these discontinuous results. For example, the international module outputs a set of crude oil supply curves and petroleum produce import supply curves as discrete step functions. The Petroleum Market Module, which includes these step curves in its linear program to represent refinery operations, solves for fuel prices and refinery fuel demands to minimize costs. This type of approach yields discontinuous petroleum pricing and fuel demands. The electricity fuel dispatch (EFD) model is also implemented as a linear program and contains discontinuities due to the discrete nature of the merit-order plant dispatch. The coal distribution model is also a linear program. Thus, each of these models introduces discontinuities into the NEMS solution process.

The effect on the solution process of having discontinuities can be seen by using step function demand curves with continuous supply curves. The same conclusions may be drawn as long as either or both of the supply and demand curves are step functions. Figure 4 and Figure 5 depict the two ways in which the continuous supply curve and step demand curves can intersect.

In these figures the supply curve determines the price used in the demand curves, which then feed back a quantity. The solution path resulting from application of the Gauss-Seidel algorithm is delineated by arrows: a horizontal arrow shows the quantity response from the demand curve and a vertical arrow shows the price response from the supply curve.
Figure 4. The supply curve cuts across the horizontal portion of the demand curve

Figure 5. The supply curve cuts across the vertical portion of the demand curve
When the supply curve intersects the horizontal portion of the demand curve, there is an oscillation in the solution between quantities $Q_0$ and $Q_1$ and prices $P_0$ and $P_1$ (Figure 4). When the intersection of the supply and demand curves is on the vertical portion of the demand curve, one can achieve the equilibrium with the Gauss-Seidel algorithm using relaxation, even if the unrelaxed algorithm yields an oscillation in the solution (Figure 5). In Figure 4 there is no relaxation fraction, $r$, for which convergence will occur. However, a value for $r$ can be found so that the oscillation occurs around no more than two steps. Provided the steps are small enough to fall within the convergence tolerance, then relaxation can prevent oscillations between steps from being a convergence problem.

Integrated developmental testing of NEMS revealed a number of convergence problems. Factors leading to convergence problems were assessed and changes were made as needed to the individual NEMS modules. In a few cases, provisions to pass additional information between modules were required to develop stable convergence properties. Many of the convergence problems involved interactions between the Electricity Market Module (EMM) and the three supply modules providing it with fuel prices: the Natural Gas Transmission and Distribution Module (NGTDM), the Petroleum Market Module (PMM), and the Coal Market Module (CMM).

The Electricity Fuel Dispatch (EFD), a submodule of the EMM, determines what generating capacity should be running at a particular time to meet the demand for electricity. The type of capacity used (fossil fuel, nuclear, renewables) and the manner in which it is deployed (base load, intermediate load, or peak) determines the fuel demands for the EFD based on linear program that effectively simulates a merit-order plant dispatch. The EFD also simulates the capability of dual-fired plants to switch between natural gas and oil based on relative fuel prices and other operating costs. These modeling characteristics may result in discrete changes in the quantity of fuels required as relative prices change, often leading to convergence oscillations in the natural gas market as depicted in Figure 4 and Figure 5.

Merit order switching in the electricity market commonly occurred between natural gas and other fuels, between types of coal (graded by sulfur content), and sometimes between types of natural gas (competitive versus firm). Several techniques were used to reduce this effect, depending on the specific cause of the switch. These included incorporating demand curves in the PMM and NGTDM modules, implementing price relaxation in the integrating module, and transferring the calculations of sulfur allowance pricing and coal choices by sulfur content from the EMM to the coal market module.

With the exception of a generic price relaxation algorithm in the Integrating Module, these convergence problems were addressed through changes in the individual supply and conversion modules of NEMS. Two of these modules (Coal Market Module and the NGTDM) have been re-implemented in recent years, and the documentation of those modules should be consulted for current modeling details (see Appendix A for references).

Additional convergences issues have been encountered with the introduction of the multi-cycle convergence process and energy-related emissions policy constraints. When NEMS is run to meet an overall annual carbon dioxide emission constraint, a trial carbon dioxide permit value is
added to fuel prices in proportion to each fuel’s carbon content. The trial permit price is varied until the emissions constraint is realized within a given tolerance. Electricity capacity expansion decisions are sensitive to expected permit prices. To reflect such expectations a solution process was configured to solve for the entire emissions permit price path. This involves execution of multiple cycles of NEMS and an approach to setting emission permit prices at the start of each cycle based on a weighted average of the prior runs realized and expected permit prices.\(^5\) The cycling is repeated until realized and expected permit prices converge.

### Expected Value Foresight

Mid- and long-term energy forecasting involves assessing changes in energy-using capital stocks and choices among energy supply alternatives. This analysis requires simulation of such decisions as the selection of durable appliances, planning electricity-generating capacity additions, and building gas pipelines. The economic evaluation of these decisions requires energy demand and price expectations for life-cycle cost and capacity addition calculations. An objective in this aspect of the modeling is to simulate such decision making in the aggregate for predictive and analytical purposes, representing how players in the energy marketplace make long term planning decisions, rather than by deriving the theoretically optimal long-term expansion path. As a result, the formulation of foresight assumptions is open to alternative approaches based on observed industry practices.

NEMS could, in principle, approach the issue of foresight by prescribing a desirable end state for the energy marketplace, and calculating backwards in time to prescribe how best to arrive there. However, as a simulation, NEMS calculates foresight as an extrapolation of the present state of energy markets, subject to announced policies. Rather than determining how to arrive at the planned future, NEMS can evaluate whether present plans could result in the desired end state.

In reality, different methodologies for treating foresight are used in different sectors and supply areas, and alternate approaches to representing expectations may yield significantly different planning decisions. Consequently, treatment of foresight becomes an important modeling decision.

There is no one best approach to treating foresight. The National Research Council recommended that several options for modeling foresight be developed.\(^6\) As a result, an objective in NEMS was to build the flexibility to support different approaches to foresight to allow for experimentation and future modeling changes. In addition, it is desirable to have the option to treat foresight consistently throughout the modeling system.

The purpose of dealing with foresight and expectations in the Integrating Module is to be able to represent different types of foresight consistently. At the same time the Integrating Module allows individual modules to handle foresight independently, should industry practice require

\(^5\)Most of these cases were resolved by increasing the dampening (the weight of the prior solution's expectation guess via the model option “WGTGUESS”), but at the expense of longer run times and more cycles.

different approaches. To achieve this flexibility, each NEMS module was to be constructed so that an on-off switch was examined to determine whether the module used the system-generated expectations. If this central-control switch is turned on, the module uses system expectations; otherwise, the module uses expectations it generates for itself.

There are three options to generating expectations:

- The “myopic expectations” option is one in which expected prices for any forecast period are assumed to be constant in real dollar terms relative to the current period in which decisions are being made. This case generally applies to expected prices and not expected quantities because an assumption of constant energy quantity demanded is rarely assumed.

- “Adaptive expectations,” also known as “extrapolative expectations,” is an approach that assumes planners extrapolate recent trends when making long-term decisions. For the system-generated expectations, this assumption about foresight is implemented by extrapolating the current projection year prices and quantities using the average annual growth over the previous few projection years. For example, the expectations generated in model year 2010 for use in 2011 would be determined from the growth over the last few model years (e.g., 2008 to 2010), with the number of years being a model option. For expectations generated within individual modules, more elaborate behavioral models, or adaptive expectations, are used.

- The “perfect foresight” approach is based on rational expectations theory. The approach generates an internally consistent scenario for which the formation of expectations is consistent with the projections realized in the model. In practice, perfect foresight describes the configuration and solution algorithm that achieves the convergence of expected values and realized solution values. A variation in the integrating algorithm was required to implement perfect foresight. This option involves the iterative cycling of NEMS runs, with each cycle being a complete pass over the entire projection period. The objective is to have expected values for variables and realized values converge between cycles, a state referred to as inter-cycle convergence, in addition to having convergence within the cycle for individual projection years, or intra-cycle convergence. As a result, it has become necessary to evaluate NEMS runs with respect to both inter-cycle convergence and intra-cycle convergence.

The Electricity Market Module (EMM) is heavily dependent on expectations techniques. The EMM requires fuel price expectations for natural gas, oil, and coal for use in its capacity planning submodule. The capacity planning submodule also requires expectations for electricity demand. In the past, algorithms to generate these expectations were implemented in the NEMS integrating model. In recent years, new approaches for electricity demand and coal price expectations have been implemented directly in the EMM model. At present, some aspects of
the oil and natural gas prices expectations for EMM are still implemented in the integrating module. The approaches are described below:

- **Oil product price expectations** are calculated from an external forecast of world oil prices, assuming a constant markup between the regional product price and the world oil price. In each forecast year, the assumed markup is derived from the prior forecast year:

  \[ P_{c+k} = (P_c - W_c) + W_{c+y} \quad \text{for } y=1,\ldots,40 \text{ years (planning horizon for power plants)} \]

  where \( P_c \) and \( W_c \) are the product price and the exogenous world oil price from the previous forecast year, and \( P_{c+y} \) and \( W_{c+y} \) are the prices in the expectation years.

- **The wellhead price expectations through 2025** are generated by a perfect foresight method (by default). The wellhead prices expectations are taken as a weighted average of the prior run’s realized prices and its expected prices. The weight is specified by the user. Delivered natural gas prices are derived from expected wellhead prices assuming a constant markup between the delivered prices and the wellhead price.

  The wellhead price expectations for the post-2025 period are based on a nonlinear function that relates the expected wellhead gas price to cumulative domestic gas production. The basis for this adaptive expectation approach is the notion that increases in cumulative production would be associated with the depletion of domestic resources and, in turn, general expectations of increases in price in the long run. An equation that tries to capture this general idea is of the following form:

  \[ P_k = A_y \cdot Q_y^e + B, \]

  where \( P \) is the wellhead price, \( Q \) is the cumulative production from 1991 to future year “\( y \)” in the planning horizon, “\( e \)” is a user-specified parameter, and “\( A \)” and “\( B \)” are determined each year, as explained below.

  The approach was developed to have the following properties:
  - Prices should be upward sloping as a function of cumulative gas production, as prices could be expected to rise as existing resources are depleted.
  - The rate of change in wellhead prices is a function of the economical reserves that remain to be discovered and produced. The value of the parameter \( e \) determines the shape of the function.

  The approach assumes that at some point in the future a given target price, \( PF \), results when cumulative gas production reaches a given level, \( QF \). Thus, the target values \( PF \) and \( QF \) are assumed inputs to the approach. In the *Annual Energy Outlook 2005*, the assumed value of \( PF \) was $9.00/mcf (1998 dollars), corresponding to a cumulative production (\( QF \)) of 1750 tcf. The annual production is assumed to grow at the rate observed over the prior three years within the forecast. The parameters of the price
equation, A and B, are determined each projection year such that the price equation will intersect the future target point. That is:

\[
\begin{align*}
\text{let } D &= \text{Last year's gas production} \\
\text{let } PS &= \text{Last year's wellhead gas price} \\
\text{let } QS &= \text{Last year's cumulative gas production since 1991} \\
A &= (PF - PS) / (QF^e - QS^e) \\
B &= PF - A \times QF^e
\end{align*}
\]

The following assignment statement extrapolates cumulative production for future years, \( y = 1, \ldots, 40 \) years (with 40 years being the maximum planning horizon for power plants):

\[
Q_k = Q_{y-1} + D
\]

This generates the expected well-head prices:

\[
P_y = A \times Q_y^e + B
\]

An initial “concave down” trajectory \((e<1)\) is assumed to be reversed once natural gas prices reach a given trigger price, assumed to be $3.50/mcf (1998 dollars) for AEO2005. When expected prices exceeded that trigger, representing the price at which unconventional gas sources would become economical, a second value for “\(e\)” \((e>1)\) is implemented that turns the trajectory up. The value of \(e\) is assumed based on analyst judgment.

**Carbon Dioxide Emission Calculations**

The Integrating Module (through its Emission Policy Submodule) estimates carbon dioxide associated with the use of energy. Carbon dioxide emissions are dependent on the carbon content of the fuel and the fraction of the fuel consumed in combustion. The product of the carbon dioxide coefficient and the combustion fraction yields a carbon dioxide emission factor. The emissions factors are expressed in millions of metric tons of carbon emitted per quadrillion Btu of energy use, or equivalently, in kilograms of carbon per million Btu.

For fuel uses of energy, the combustion fractions are assumed to be .99 for liquid fuels and .995 for gaseous fuels. The potential emissions of carbon dioxide from nonfuel uses 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.

Table 6 presents the carbon dioxide coefficients, combustion fractions, and emission factors for 2003. The adjusted emission factors are input into the emission policy submodule through a file (“epmdata.txt”). Because some of the factors have varied over time, factors for recent history years in NEMS are entered separately. Factors for the last available year, 2003, apply for all projection years.
### Table 6. Carbon Dioxide Emissions Factors (million metric tons per quadrillion Btu)

<table>
<thead>
<tr>
<th>Fuel Type</th>
<th>Carbon Dioxide Coefficient at Full Combustion</th>
<th>Combustion Fraction</th>
<th>Adjusted Emission Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Petroleum</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor Gasoline</td>
<td>70.91</td>
<td>0.990</td>
<td>70.20</td>
</tr>
<tr>
<td>Liquefied Petroleum Gas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Used as Fuel</td>
<td>63.07</td>
<td>0.995</td>
<td>62.75</td>
</tr>
<tr>
<td>Used as Feedstock</td>
<td>61.67</td>
<td>0.500</td>
<td>30.83</td>
</tr>
<tr>
<td>Jet Fuel</td>
<td>70.88</td>
<td>0.990</td>
<td>70.17</td>
</tr>
<tr>
<td>Distillate Fuel</td>
<td>73.15</td>
<td>0.990</td>
<td>72.42</td>
</tr>
<tr>
<td>Residual Fuel</td>
<td>78.80</td>
<td>0.990</td>
<td>78.01</td>
</tr>
<tr>
<td>Asphalt and Road Oil</td>
<td>75.61</td>
<td>0.000</td>
<td>0.00</td>
</tr>
<tr>
<td>Lubricants</td>
<td>74.21</td>
<td>0.500</td>
<td>37.11</td>
</tr>
<tr>
<td>Petrochemical Feedstock</td>
<td>71.02</td>
<td>0.370</td>
<td>26.28</td>
</tr>
<tr>
<td>Kerosene</td>
<td>72.31</td>
<td>0.990</td>
<td>71.58</td>
</tr>
<tr>
<td>Petroleum Coke</td>
<td>102.12</td>
<td>0.500</td>
<td>51.06</td>
</tr>
<tr>
<td>Petroleum Still Gas</td>
<td>64.20</td>
<td>0.995</td>
<td>63.88</td>
</tr>
<tr>
<td>Other Industrial</td>
<td>74.43</td>
<td>0.990</td>
<td>73.68</td>
</tr>
<tr>
<td><strong>Coal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential and Commercial</td>
<td>95.48</td>
<td>0.990</td>
<td>94.53</td>
</tr>
<tr>
<td>Metallurgical</td>
<td>93.98</td>
<td>0.990</td>
<td>93.04</td>
</tr>
<tr>
<td>Industrial Other</td>
<td>94.38</td>
<td>0.990</td>
<td>93.44</td>
</tr>
<tr>
<td>Electrical Generation</td>
<td>95.26</td>
<td>0.990</td>
<td>94.31</td>
</tr>
<tr>
<td><strong>Natural Gas</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Used as fuel</td>
<td>53.06</td>
<td>0.995</td>
<td>52.79</td>
</tr>
<tr>
<td>Used as feedstock</td>
<td>53.06</td>
<td>0.774</td>
<td>41.07</td>
</tr>
</tbody>
</table>


Any carbon dioxide emitted by renewable sources is considered balanced by the carbon dioxide sequestration that occurred in its creation. Therefore, following convention, net emissions of carbon dioxide from renewable sources is taken as zero, and no emission coefficient is reported. Renewable fuels include hydroelectric power, biomass, photovoltaic, geothermal, ethanol, and wind energy.

Several adjustments to the carbon dioxide calculations are made in the industrial, transportation, and electricity generation sectors, as follows:

**Industrial:** The use of fossil fuels for non-fuel use of certain end-use products such as
feedstocks for chemical production causes a significant amount of the potential emissions of carbon dioxide to be sequestered in the product. The amount of carbon dioxide sequestered depends on product characteristics that are not defined explicitly in NEMS. Following EIA’s practice, an average sequestration fraction is used for each nonfuel use. In the Industrial Module, the two major feedstocks are liquefied petroleum gases (LPG) and natural gas. Consumption of these fuels is divided into feedstock and combustion categories. For the feedstock uses, an appropriate sequestration rate is applied to account for the average proportion of carbon dioxide sequestered among products in this category. "Other" petroleum products consist of lubricants and miscellaneous petroleum products.

**Transportation:** The total consumption of motor gasoline reported by the Transportation Module includes both gasoline, gasoline-ethanol mixtures, and gasoline containing oxygenates with ethanol precursors. Since ethanol is considered a renewable fuel with zero net carbon dioxide emissions, the total consumption of motor gasoline was reduced by the amount of ethanol used in its production before multiplication by the emission coefficient. This modification represents less than one million metric tons carbon equivalent of carbon dioxide. Furthermore, since "other" petroleum was considered primarily lubricants, the emission coefficient and sequestration rate for lubricants was used for all of “other” petroleum.

**Electricity Generation Market:** Carbon dioxide emissions from coal are computed for each of seven categories of coal, as determined in the Electricity Market Module and Coal Market Module. The carbon dioxide emissions factors each coal category are provided by the Coal Market Module. This methodology incorporates changes in the mix of coal types used over time.

### Emissions Policy Submodule

The Emissions Policy Submodule (EPM) implements four carbon dioxide policy evaluation options. None of the policy options are assumed to take place in runs for the AEO2005. However, the options have been used to simulate potential market-based approaches to meet National carbon dioxide emission objectives. The four policy options are as follows:

1) **Carbon Dioxide Tax.** A nominal or real dollar tax per kilogram of carbon for fossil fuels is converted to a dollar-per-Btu tax for each fuel/sector based on the carbon dioxide emission factor. A different tax may be set for each year. Fossil fuel prices are adjusted to include the tax. The demand and conversion models respond to the adjusted fossil fuel prices to induce carbon dioxide emissions reductions. Revenue from the tax is passed to the macroeconomic module where treatment of such revenue (e.g., reducing the deficit or reducing other taxes through a lump sum redistribution to consumers), depends on a user-specified option setting. Generally, large changes in government revenue would require additional offline analysis to assess macroeconomic feedbacks.

2) **Auction of Permits.** An auction to distribute emissions permits is simulated. The total

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7 A single tax rate applies to all categories of carbon dioxide. A switch in the control file allows the tax rate to be treated as either a carbon dioxide tax (dollar per kilogram carbon) or as a Btu tax (dollar per million Btu). This flexibility allows the emissions policy module to be used to analyze simple energy tax policies as well.
number of permits sold corresponds to the total carbon dioxide emission goal as set by the user. A different goal may be set for each year. Essentially, this option determines the permit fee necessary to achieve the carbon dioxide goal by clearing the auction market. The permit fee is treated as a carbon dioxide emissions tax and used as an adjustment to the fossil fuel prices. A new auction price is set at the end of each NEMS iteration (where one iteration in the solution algorithm refers to a single execution pass through all NEMS modules for a single projection year) until the emissions reach the goal. The permit auction is assumed to operate with no initial allocation of emission permits. As in Option 1, Carbon Dioxide Tax, revenue from the auction is passed to the macroeconomic module where its effect may require additional analysis.

3) Market For Permits. A market for tradable carbon dioxide emissions permits is simulated assuming that an initial distribution of marketable permits to emission sources takes place. The permits are transferable but are not banked between years. As with the carbon dioxide tax and auction options, the full market price of the permits is added to the energy prices on a dollar-per-Btu basis. The system of marketable permits is implemented in the same way as the permit auction, with the exception of the calculation of revenues from permit sales. Similar treatment is warranted because the marginal cost of a “free” permit is equivalent to one purchased at auction, given the opportunity cost of holding the distributed permit.

In an open, competitive permit market, the permit will tend to be priced at the marginal cost of reducing carbon dioxide emissions, regardless of the initial distribution of permits. If permits are purchased by suppliers and passed through to the fuel price, the marginal cost of the carbon dioxide emission by a particular sector in a region will be reflected in the individual end-use fuel cost for that sector.

The evaluation of the initial distribution of permits depends on the sector. For those sectors in which the product prices are based on marginal cost, as in the Petroleum Market Module, the value of the initial distribution of permits may be ignored; it does not affect the price of products. However, in the regulated electricity sector, where the average cost is used to determine price, the revenue attributed to the free use or sales of the initially distributed permits would possibly be passed through to the consumers. The value of the initial distribution of permits is calculated, but it is not used for electricity pricing purposes. Instead, the full cost of the permits, as though there were no initial distribution, is reflected in the electricity price.

As with the auction, a new permit fee is set at the end of each NEMS iteration (where one iteration in the solution algorithm refers to a single execution pass through all NEMS modules for a single projection year). The fee is adjusted up or down in response to the total carbon dioxide emissions obtained. The price of an allowance is adjusted until the total carbon dioxide produced is within a tolerance of the goal for that year.

4) Market for Permits with Emission Offsets. The offset option allows for the goal on tradable emissions permits to increase through a user-specified supply of offsets. Part of a greenhouse gas emission reduction strategy may be an offset policy. An offset policy gives credit to reductions in emissions from sources whose total emissions would be difficult to quantify precisely, such as the capture of coal bed methane. Offsets could also be available from activities like reforestation, to reflect the increase in carbon dioxide sequestration. The amount of offsets for
reforestation and coal bed methane capture must be specified at various permit prices; the higher the price, the greater the assumed offsets. The offset, in millions of tons available at a given allowance price, is added to the carbon dioxide goal. While some test values for offsets are available, any formal use of this option would require additional research to arrive at appropriate assumptions. Another possible use of this option would be to simulate the availability of international carbon dioxide emission allowances at various prices. The specification of offset supply curves, or marginal abatement cost tables, along with exogenous forecasts of greenhouse gases other than energy-related carbon dioxide, are made through an input file "offsets.wk1."

Emissions Policy Submodule Implementation and Mathematical Specification

The Emissions Policy Submodule (EPM) is called at the end of each NEMS iteration, after all the other modules have been called. With all four of the EPM options, some form of energy price adjustment is calculated to account for the carbon dioxide tax, or permit fee, for the next iteration. The carbon dioxide fee is either fixed (for a straight carbon dioxide tax) or is varied each NEMS iteration until a carbon dioxide goal is met (for the permit auction and permit market options).

The fee on carbon dioxide emissions is modeled as an adjustment on the end-use price of the fuel. Two sets of end-use price variables are maintained in NEMS: an unadjusted set of prices without any carbon dioxide fee added, and an adjusted set of prices that includes the carbon dioxide fee. The unadjusted prices are those determined by the NEMS supply and conversion modules. The adjusted prices, with the carbon dioxide fee included, are the price variables actually used by the demand models. In the integrating module, after each module is executed, the adjusted fuel prices are reassigned based on the current carbon dioxide fee.

Input-Output Linkages

The input data for EPM comes primarily from other modules of NEMS. The only other exogenous data are the policy options to be implemented and the carbon dioxide emissions factors. If a carbon dioxide tax scenario is to be implemented, the tax rate must also be specified. Alternatively, a carbon dioxide goal may be specified, and the carbon dioxide tax to meet that goal will be set in the EPM once each iteration of the NEMS solution algorithm. Output from the EPM consists of adjustments of the end-use prices of fuels consumed by the demand and conversion modules. The adjustments are additions to prices in dollars per million Btu. Revenue, in billions, from the carbon dioxide penalty is also calculated, where it can be used by the Macroeconomic module or for offline analysis of macroeconomic feedbacks.

The EPM inputs and outputs are stored in the NEMS global data structure. As input, three common blocks contain the NEMS end-use fuel prices: MPBLK, NGTDMOUT and COALPRC. These prices, established in the NEMS supply and conversion modules, are the input prices to the EPM. As output, EPM determines a dollar-per-Btu adjustment to each product-sector price to reflect any carbon dioxide tax or allowance fee. EPM adds the adjustment to the NEMS end-use fuel prices and stores them in a parallel set of price common blocks: AMPBLK, ANGTDM, and ACOALPRC. When no carbon dioxide policy options are in effect, the adjusted price common blocks (AMPBLK, ANGTDM, ACOALPRC) match the

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unadjusted price common blocks from the supply modules (MPBLK, NGTDOUT, and COALPRC). The energy price adjustments, equal to the difference between the two sets of prices, are stored in the EMABLK common block. If nonzero, these prices adjustments are used as starting values when either of the carbon dioxide goal options (auction or permit market) are in effect.

The total carbon dioxide emission from both combustion and non-combustion sources is calculated in the EPM from information in the common blocks QBLK, INDOU, EMMOUT, and COALEMM. The common QBLK contains the quantities of end-use fuels consumed. In QBLK, feedstock uses of liquefied petroleum gas and natural gas are not broken out separately from total industrial liquefied petroleum gas and natural gas, respectively. The feedstock portion of these fuels is obtained from two variables, INQLGPF and INQNGPF, in the common block INDOU. The EMMOUT common has natural gas consumption reported by EMM region for firm, interruptible, and competitive categories. The COALEMM block contains coal consumption by SO2 classification category and emissions factors for coal aggregated to those same categories. Several policy options result in revenue from the carbon dioxide penalty flowing to the government. This revenue is furnished to the macroeconomic module through the EMISSION common block.

**Emissions Policy Submodule Algorithm**

The EPM is executed once each iteration to determine total carbon dioxide emissions produced, the revenue created by any tax or permit fees for carbon dioxide emissions, and, depending upon the scenario, the level of offsets produced. For the carbon dioxide goal policy options, a heuristic algorithm (subroutine REGFALSI) sets a new carbon dioxide fee to bring the carbon dioxide emissions closer to the carbon dioxide goal.

The following outline depicts the steps in the submodule flow, showing subroutine calls and variable names in parentheses.

I. First Year, First Iteration Processing

A. Read control file, “epmcntl.txt,” to get settings for the four policy options (TAX_FLAG, PERMIT_FLAG, MARKET_FLAG, OFFSET_FLAG)

B. Read emissions policy data file “epmdata” (Call EPM_READ).
   1) Read yearly arrays with the emission tax (EMTAX), carbon dioxide goal (EMISSIONS_GOAL), and maximum tax (MAX_TAX).
   2) Read coal region mapping variable (obsolete).
   3) Read yearly arrays with emission factors for each fuel/sector product (variable names are the same as the corresponding NEMS energy consumption variables but start with “E” instead of “Q”).
   4) Read supply curve prices, quantities for reforestation offsets (PREF, OFFSETREF).
   5) Read supply curve prices and quantities for coal bed methane offsets (PCB, OFFSETCB).

II. Calculate carbon dioxide emissions and sum to a national total (Call SUM_EMISSIONS).
III. Calculate revenues from carbon dioxide tax or carbon dioxide permit fees (Call ACCNTREV).

IV. Under a market permit system, allocate revenue to end-use sectors based on initial sector shares of carbon dioxide emissions (Call INITREV).

V. Under a market permit system with offsets, determine what level of emission offsets is available to raise the carbon dioxide cap, given the current carbon dioxide tax (Call OFFSETS).

VI. With a permit auction or market, assign a new carbon dioxide tax to reduce the absolute difference between the carbon dioxide emissions and the carbon dioxide goal (Call REGFALSI).

VII. Calculate energy price adjustments of end-use fuels from the carbon dioxide tax by multiplying the carbon dioxide tax by the fuels' emission factors (Call PRICE_ADJUST).

VIII. After every NEMS module called, reassign the adjusted prices by adding the carbon dioxide tax price adjustments to the unadjusted prices (Call COPY_ADJUST).

**Emission Policy Submodule Mathematical Specification**

The following subroutine descriptions provide the mathematical specifications for these calculations.
SUBROUTINE EPM

This subroutine is the main controlling subroutine for the Emissions Policy Submodule. Initially, the subroutine reads flags to determine the scenario type: carbon dioxide tax, auction of permits, market for permits, and permit market with offsets. Based on these flags, the module calls the appropriate subroutines. For all options, carbon dioxide emissions are estimated (SUM_EMISSIONS), and the revenue from any carbon dioxide fee, regardless of whether it is from a carbon dioxide tax, auction, or permit trading policy is calculated (ACCNTREV). For the permit trading policy, a routine is called to distribute an initial allocation of the revenues, equivalent to distributing “free” permits to the consuming sectors in proportion to their base year carbon dioxide emissions (INITREV). For an auction or permit market policy, a new permit fee is established each NEMS iteration, such that the emissions goal is met within a given tolerance level (REGFALSI). For the carbon dioxide emissions offset option, the offsets that would be created at the previous market-clearing price are added to the emissions goal (OFFSETS).

Called by: Integrating Module, Subroutine NSOLVE

Calls: EPM_READ
        SUM_EMISSIONS
        ACCNTREV
        INITREV
        REGFALSI
        OFFSETS
        PRICE_ADJUST

Equations: None.
SUBROUTINE SUM_EMISSIONS

Description: This subroutine calculates carbon dioxide emissions by sector and returns to national total, AMTPOL. Carbon dioxide emissions are the product of end use fuel consumption and the corresponding emissions factor. The emissions are aggregated by Census region and sector. The variables for fuel quantities are defined in the common blocks QBLK and EMMOUT.

Called by: EPM

Calls: None

Equations:

\[ AMTPOL = \sum_i \sum_j \sum_k Em(ik) \times Qf(ijk) \]

where,

AMTPOL = Total carbon dioxide emissions from all fuel i (billion kilogram-carbon) from all regions j in year k,

Em(ik) = Carbon dioxide emission factor for fuel i (kilogram-carbon/million-Btu) in year k,

Qf(ijk) = Quantity of fuel i consumed (trillion-Btu) in region j and year k.
SUBROUTINE ACCNTREV

Description: This subroutine calculates the total revenue raised from each sector by the emissions fee (tax or permit fee). Revenue is calculated by multiplying the quantity of end-use fuel consumption by an emissions factor and the emissions fee.

Called by: EPM

Calls: None

Equations:

\[
REV(l) = \sum_{i \in l} \sum_{j} \sum_{k} EMTAX(k) Em(ik) Qf(ijk) / 1000
\]

where,

\[
REV(l) = \text{Total revenue collected in sector } l \text{ from all fuel } i \text{ from all regions } j \text{ and in year } k \text{ (Billion 1987 $)};
\]

\[
Em(ik) = \text{Emission factor for fuel } i \text{ (kilograms-carbon /million-Btu)} \text{ in year } k;
\]

\[
EMTAX(k) = \text{Carbon dioxide tax or permit fee (87$ / kilogram carbon) in year } k;
\]

\[
Qf(ijk) = \text{Quantity of fuel } i \text{ consumed in region } j \text{ and year } k \text{ (trillion-Btu)};
\]
SUBROUTINE INITREV

Description: If a marketable permit system is being modeled, a given number of permits will be distributed initially to the affected sources. This subroutine calculates the value of this initial allocation of permits by multiplying the number of permits by the carbon dioxide permit fee.

Called by: EPM

Calls: None.

Equations:

\[ C_{\text{allocInit}} = S_{\text{allocInit}} \times P_{\text{alloc}} \]

where,

- \( C_{\text{allocInit}} \) = Total value of initial allocation of permits (billion 1987 $),
- \( S_{\text{allocInit}} \) = Permits allocated initially (billion kilograms-carbon),
- \( P_{\text{alloc}} \) = Price of a permit (87$/kilograms-carbon).
SUBROUTINE: PRICE_ADJUST

Description: This subroutine assigns the price adjustment of each fuel to reflect the carbon dioxide emissions tax or permit fee by multiplying it by the fuel's emission factor. These price adjustments are used in subroutine COPY_ADJUST to establish adjusted fuel prices that include the carbon dioxide tax or permit fee.

Called by: EPM

Calls: None.

Equations:

\[ E_{adj}(ik) = E_{m}(ik) \times E_{MTAX}(k) \]

where,

- \( E_{m}(ik) \) = Emission factor for fuel i (kilograms-carbon/million-Btu) in year k,
- \( E_{MTAX}(k) \) = Carbon dioxide tax ($/kilo-carbon) in year k
- \( E_{adj}(ik) \) = Price adjustment of fuel i ($/million-Btu) in year k.
SUBROUTINE: REGFALSI

Description: This subroutine adjusts the carbon dioxide tax (or carbon dioxide permit fee) such that the carbon dioxide emission goal is met. In general, the routine will increase the tax if the carbon dioxide emissions exceed the goal and decrease the tax if the emissions fall below the goal.

The routine first establishes a tax range to try to bracket emissions within an interval around the goal. Let \( f(x) \) be the difference between the carbon dioxide emissions and the carbon dioxide goal for a carbon dioxide tax of \( x \). Note the \( f(x) > 0 \) implies the tax is too low, while \( f(x) < 0 \) implies the tax is too high. The objective is to find \( x \), where \( f(x) = 0 \). Initially, the subroutine must adjust the value of \( x \) to find two values of the carbon dioxide penalty, \( x_i \) and \( a_i \), where \( x_i < a_i \), \( f(x_i) < 0 \), and \( f(a_i) > 0 \). Once these conditions hold, a new trial tax, \( u \), is established within the interval between \( x_i \) and \( a_i \) using the equation below.

This interpolation method to find the root is known as the method of false position, or regula falsi.

Called by: EPM

Calls: None.

Equations:

\[
u = \frac{[a_i f(x_i) - x_i f(a_i)]}{f(x_i) - f(a_i)}\]

where,

\[a_i = \text{Carbon dioxide tax on some previous iteration } i \text{ such that } f(a_i) < 0,\]
\[x_i = \text{Carbon dioxide tax on some previous iteration } i \text{ such that } f(x_i) > 0,\]
\[u = \text{New carbon dioxide tax.}\]

In the next iteration, \( x_i \) is replaced with \( u \) if \( f(u) < 0 \), or \( a_i \) is replaced with \( u \) if \( f(u) > 0 \). Using this procedure, the value of \( u \) is found such that \( f(u) = 0 \) to some tolerance.
SUBROUTINE: COPY_ADJUSTED

Description: This subroutine updates the adjusted price common blocks, adding a fuel-specific cost adjustment to reflect a carbon dioxide tax or permit fee on each fuel. All of the prices in the unadjusted price common blocks MPBLK, COALOUT and NGDOUT, are copied to the corresponding adjusted price common blocks AMPBLK, ACOAL and ANGTDM each time a NEMS module is executed, and the fuel-specific price adjustments for specific variables calculated in subroutine PRICE_ADJUST are added.

Called By: NSOLVE

Calls: none

\[ \text{Padj}(ijk) = \text{Pbase}(ijk) + \text{Eadj}(ik) \]

Equations:

where,

\[ \begin{align*}
\text{Padj}(ijk) &= \text{Adjusted price of fuel } i \text{ in region } j \text{ and year } k \text{ (87$/million-Btu)}, \\
\text{Pbase}(ijk) &= \text{Unadjusted price of fuel } i \text{ (87$/million-Btu) in region } j \text{ and year } k, \\
\text{Eadj}(ik) &= \text{Price adjustment of fuel } i \text{ (87$/million-Btu) in year } k.
\end{align*} \]
SUBROUTINE: EPM_READ

Description: This subroutine reads the initial carbon dioxide penalty, emissions factors, and offset curves for the EPM.

Called by: EPM

Calls: None.

Equations: None.
Appendix A.
Bibliography

The National Energy Modeling System is documented in a series of model documentation reports, available on the Internet at http://www.eia.doe.gov/bookshelf/docs.html. Most of the references in the Bibliography refer to these documentation reports and their publication numbers. The model documentation reports listed below are those available in May 2005 or expected to be updated in mid-2005 to reflect modeling changes for the AEO2005.

The reports listed below, unless cited otherwise, were produced by the Energy Information Administration.


Petroleum Market Model of the National Energy Modeling System, Model Documentation 2005,


Appendix B.
NEMS Software Management and Implementation

This appendix describes some aspects of NEMS integration related to software management and NEMS implementation. The features described relate to how NEMS is organized and implemented for use in EIA’s multi-user development environment. These features do not apply to the archival version of NEMS, which is designed for a single user and a particular version of NEMS.

Configuration Management

A custom configuration management system employing the public domain Revision Control System (RCS) is implemented at the file level and integrated into various model management features. The MKS Toolkit, used for Korn shell emulation and scripting, is used to implement most of these RCS features in a command-oriented shell environment that runs under the Microsoft Windows operating system.

Centralized File Storage and User Directories

Files are stored on shared servers that are backed up by EIA’s Office of Information Technology (incremental backups nightly; full backups weekly). The read-access to a common, shared storage area for NEMS files (called “/defaults”) is open to all members of a NEMS group, but write-access to this area is controlled through configuration management procedures (e.g., check-in and check-out). The primary subdirectories in the NEMS common storage area are:

- /default/input: Input files
- /default/source: Source code files (.f)
- /default/include: Supplementary source code, known as include files, with variable declarations
- /default/objects: Compiled code known as object files
- /default/logs: Log files
- /default/scripts: Programs, Korn shell scripts, and related files.

Each of the above directories has an “RCS” subdirectory. The RCS software stores revision histories of each file in the RCS subdirectory (e.g., /default/input/RCS). Additional subdirectories in the common storage area that are not subject to revision control are:

- /default/oml: Libraries for the Optimization and Modeling Library (OML)
- /default/doc: Miscellaneous files with user-oriented documentation and guidelines
User directories, stored independently of the “/default” directory on the servers, are organized in four directories by functional areas of the users:

- /mid: macroeconomic, international, demand
- /rec: renewables, electricity, and coal
- /ogs: oil and gas
- /main: integration and other

These four areas have user-specific subdirectories to store each user's work-in-progress files, trial versions, and so on. Incremental nightly backups and full weekly backups provide a recovery capability for file accidents and hardware failure.

Outputs of runs may be stored locally on the user's PC or on the servers. Most runs are stored in an “/output” directory on one of the servers. A run is stored in a scenario and date/version subdirectory (such as /output/aeo2004/d101703e).

**File Change History**

A text-formatted log recording a comment for changes to each file is maintained and the history of changes is retained. The change log is implemented at the file level, meaning there is one log and revision-history for each file. The command “fdef {filename}” (find default) is used to identify the default version of a given file and list its change history.

**Input File Naming Convention**

Each input file is named generically as well as with a unique version component. For example, the generic file, trninput.wk1, has versions identified as trninput.v1.1.wk1, trninput.v1.2.wk1, etc. The generic version of the file name is used when it is copied to a run-specific input subdirectory and when it is checked-out for editing. In many cases, the name of the file and its version is included in a file header, so that the version you are working with is evident, even if it is the generically-named file. (RCS can automatically maintain this internal version/file-name header for text files.)

NEMS input files are stored in the “/default/input” directory.
Defaults Log

A text-formatted log ("/default/logs/defaults") is maintained with at least one line for each file in the modeling system. A log entry identifies the version, say 1.2, of the file that is designated as the “default.” Other lines may identify the version(s) associated with a particular symbolic name (usually a run scenario such as hitech03). Entries in the defaults log are maintained in sync with the file's RCS change history log. That is, symbolic names identifying a version (such as default or hitech03) are also added to the file's RCS change-history log whenever the defaults log is changed.

File Check-out and Locking

To change a file, a user “check outs” the file (using command “nemsco”). The user may lock the file, signifying an intention to change it and to prevent another user from changing it without coordination. A log ("/default/logs/ciolog") identifies the user and location of each locked file (a command “listlock” lists a user's locked files). Other users can therefore find out where files under development are located.

File Check-in and Version Defaulting

Files may be returned to the common area using a check-in procedure (“nemsci”). A new version is assigned, a comment from the user is recorded, and, if requested, the new file version may be designated as the new default.

Model Programming Utility

Several features are available to support model development. A command-line procedure to compile a NEMS fortran module is available (“nfort”). Visual Fortran development environment can be used as well (see /default/doc/visual_fortran.rtf). The default NEMS source code is stored in the "/default/source" and "/default/include" directories. For model development, source code files (with extension ".f") and include files are checked out for local modification and testing. The compiled code is stored in object files (extension ".obj"). Defaulted object files are stored in the ".object" directory. A compilation log ("complog_module") for each defaulted object file identifies the source code version and include file versions used to create it. Special procedures to check out or check in a source code version and its associated include files are implemented to support the linkages between specific source code and object file versions. These procedures are called “group check-out” and “group check-in.”

Job Setup Keys for Files and Options

The “varkeys” file ("/default/scripts/varkeys") is a list of all the job setup keys that can be

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8Include files are files that are inserted into the primary source code by the compiler and are typically used to store declarations.
used to designate a run's input files and many other job submission options. This file is used by the NEMS run submitter to identify acceptable job options and convert job templates, or shells, into executable scripts.

**Run Submitter and Job Control**

There are two versions of the NEMS job submitter: “runnems” (window-oriented) and “jognems” (Korn shell command line). Both programs initialize a run and either start it running immediately or submit it for batch execution. Both read a user's run options from scenario-description files (scedes.scenario). A job log showing the status of currently executing jobs is available for status monitoring. The job log is displayed using the “jc” (job control) command with no arguments. A job control menu is displayed with the “jc menu” option and can be used to monitor, stop, or suspend individual jobs.

Subroutines in the NEMS integrating module report status information during a run and respond to job control requests to stop, suspend execution, or change priority.

**Distributed Job Processing**

A mechanism to support group-wide, distributed batch job processing on individual workstations has been implemented to run NEMS jobs. The program that implements this on each workstation is called runit.exe. “Runit” monitors job submissions and can dispatch a NEMS run awaiting execution on its host workstation. The processing is controlled to limit the number of simultaneous jobs executing on any single workstation or server. Users can direct a job to run a particular workstation that has Runit executing (using “hostpc=servername” in the scedes file). The list of available Runit queues can be displayed using the “sq” (show queues) command. The status of job processing can be displayed using the “jc” (job control) command.

**Run Log**

Runs are identified by a unique name using a scenario/date/version convention (e.g., aeo2004/d101703e, where “aeo2004” is the scenario and “e” is a version of that scenario on 10/17/03). The run identifier also is used to name the location (folder) of the run's workspace and its output files. An entry for each run is made to central run log (“runlog”), identifying the user who submitted the run. In the output directory of a run, a text file named “launched.from” provides additional information on how the run was set up and where, as an aid in problem diagnosis/replication.

**Record of Run Options and Files Used**

All options and input files (and code files) for each run are recorded in a file in the output directory (called “scedes.all”) and in the working directory where the job was submitted (scedes.all.scenario.date-version).
Run Replication and Archival Capability

Each run can be replicated by using its “secedes.all” to designate settings. The run can be initialized using the options/files from a prior run, then selectively updated with alternative options. A run archival script is available to collect all of the input files, object code, source code, and output files for a given run and save it in a package for model archival.