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Assumptions to the Annual Energy Outlook 2014

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This report presents the major assumptions of the National Energy Modeling System (NEMS) used to generate the projections in the *Annual Energy Outlook 2014* [1] (AEO2014), including general features of the model structure, assumptions concerning energy markets, and the key input data and parameters that are the most significant in formulating the model results. Detailed documentation of the modeling system is available in a series of documentation reports [2].

The National Energy Modeling System

Projections in AEO2014 are generated using the NEMS [3], developed and maintained by the Office of Energy Analysis of the U.S. Energy Information Administration (EIA). In addition to its use in developing the Annual Energy Outlook (AEO) projections, NEMS is used to complete analytical studies for the U.S. Congress, the Executive Office of the President, other offices within the U.S. Department of Energy (DOE), and other federal agencies. NEMS is also used by nongovernment groups, such as the Electric Power Research Institute, Duke University, and Georgia Institute of Technology. In addition, AEO projections are used by analysts and planners in other government agencies and nongovernmental organizations.

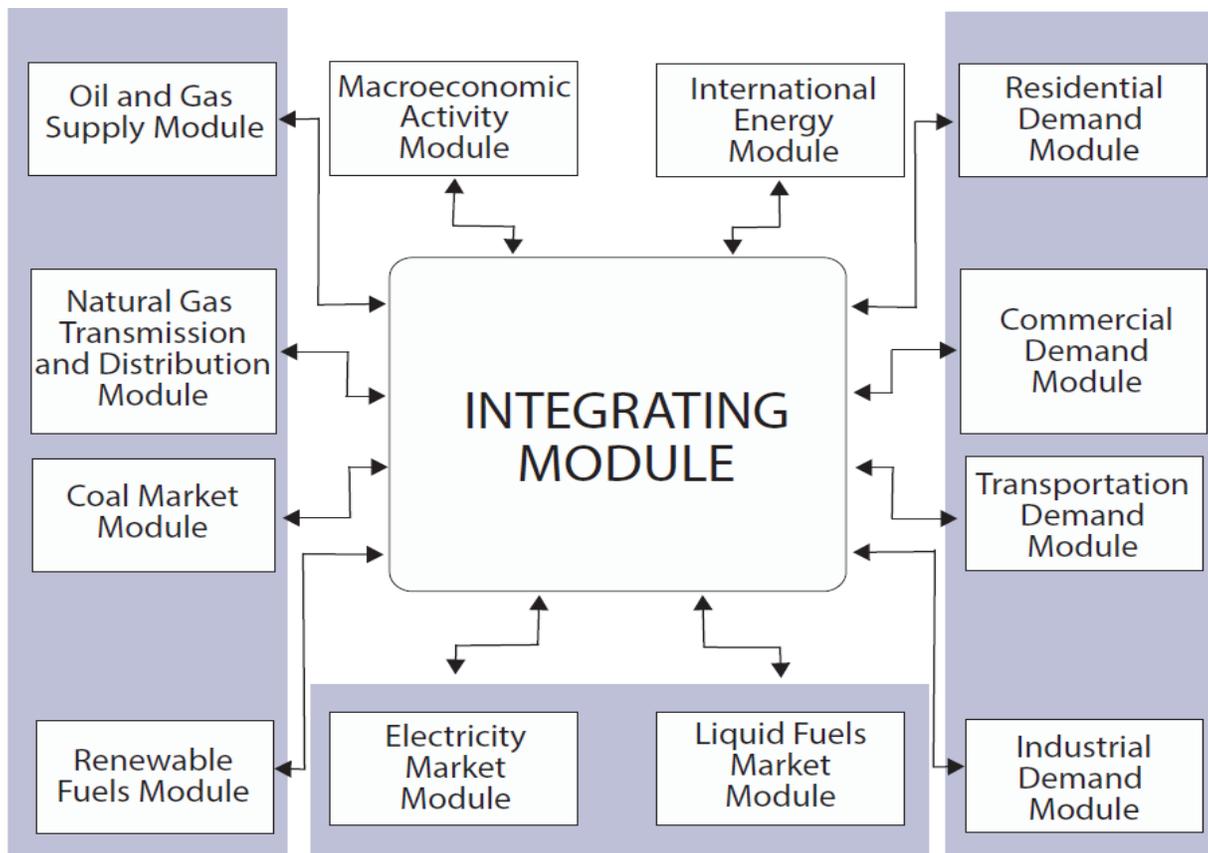
The projections in NEMS are developed with the use of a market-based approach, subject to regulations and standards. For each fuel and consuming sector, NEMS balances energy supply and demand, accounting for economic competition across the various energy fuels and sources. The time horizon of NEMS extends to 2040. To represent regional differences in energy markets, the component modules of NEMS function at the regional level: the 9 Census divisions for the end-use demand modules; production regions specific to oil, natural gas, and coal supply and distribution; 22 regions and subregions of the North American Electric Reliability Corporation for electricity; and 9 refining regions within the 5 Petroleum Administration for Defense Districts (PADDDs). Complete regional and detailed results are available on the EIA Analyses and Projections Home Page (www.eia.gov/analysis/).

NEMS is organized and implemented as a modular system (Figure 1). The modules represent each of the fuel supply markets, conversion sectors, and end-use consumption sectors of the energy system. The modular design also permits the use of the methodology and level of detail most appropriate for each energy sector. NEMS executes each of the component modules to solve for prices of energy delivered to end users and the quantities consumed, by product, region, and sector. The delivered fuel prices encompass all activities necessary to produce, import, and transport fuels to end users. The information flows also include such areas as economic activity, domestic production, and international petroleum supply. NEMS calls each supply, conversion, and end-use demand module in sequence until the delivered prices of energy and the quantities demanded have converged within tolerance, thereby achieving an economic equilibrium of supply and demand in the consuming sectors. A solution is reached for each year from 2013 through 2040. Other variables, such as petroleum product imports, crude oil imports, and several macroeconomic indicators, also are evaluated for convergence.

Each NEMS component represents the effects and costs of legislation and environmental regulations that affect that sector. NEMS accounts for all combustion-related carbon dioxide (CO₂) emissions, as well as emissions of sulfur dioxide (SO₂), nitrogen oxides (NO_x), and mercury from the electricity generation sector.

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

The version of NEMS used for AEO2014 generally represents current legislation and environmental regulations, including recent government actions for which implementing regulations were available as of October 31, 2013, as discussed in the Legislation and Regulations section of the AEO. The potential effects of proposed federal and state legislation, regulations, or standards—or of sections of legislation that have been enacted but require funds or implementing regulations that have not been provided or specified—are not reflected in NEMS. Many of the pending provisions are examined, however, in alternative cases included in AEO2014 or in other analysis completed by EIA. A list of the specific federal and selected state legislation and regulations included in the AEO, including how they are incorporated, is provided in Appendix A.

Figure 1. National Energy Modeling System

Source: U.S. Energy Information Administration, Office of Energy Analysis.

Component Modules

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

Macroeconomic Activity Module

The Macroeconomic Activity Module (MAM) provides a set of macroeconomic drivers to the energy modules and receives energy-related indicators from the NEMS energy components as part of the macroeconomic feedback mechanism within NEMS. Key macroeconomic variables used in the energy modules include gross domestic product (GDP), disposable income, value of industrial shipments, new housing starts, sales of new LDVs, interest rates, and employment. Key energy indicators fed back to the MAM include aggregate energy prices and costs. The MAM uses the following models from IHS Global Insight: Macroeconomic Model of the U.S. Economy, National Industry Model, and National Employment Model. In addition, EIA has constructed a Regional Economic and Industry Model to project regional economic drivers, and a Commercial Floorspace Model to project 13 floorspace types in 9 Census divisions. The accounting framework for industrial value of shipments uses the North American Industry Classification System (NAICS).

International Energy Module

The International Energy Module (IEM) uses assumptions of economic growth and expectations of future U.S. and world petroleum and other liquids production and consumption, by year, to project the interaction of U.S. and international petroleum and other liquids markets. This module provides a world crude-like liquids supply curve and generates a worldwide oil supply/demand balance for each year of the projection period. The supply-curve calculations are based on historical market data and a world oil supply/demand balance, which is developed from reduced-form models of international petroleum and other liquids

supply and demand, current investment trends in exploration and development, and long-term resource economics by country and territory. The oil production estimates include both petroleum and other liquids supply recovery technologies. The IEM also provides, for each year of the projection period, endogenous assumptions for petroleum products for import and export in the United States. The IEM, through interacting with the rest of NEMS, changes North Sea Brent and West Texas Intermediate prices in response to changes in expected production and consumption of crude-like liquids in the United States.

Residential and Commercial Demand Modules

The Residential Demand Module projects energy consumption in the residential sector by Census division, housing type, and end use, based on delivered energy prices, the menu of equipment available, the availability of renewable sources of energy, and changes in the housing stock. The Commercial Demand Module projects energy consumption in the commercial sector by Census division, building type, and category of end use, based on delivered prices of energy, availability of renewable sources of energy, and changes in commercial floorspace.

Both modules estimate the equipment stock for the major end-use services, incorporating assessments of advanced technologies, representations of renewable energy technologies, and the effects of both building shell and appliance standards. The modules also include projections of distributed generation. The Commercial Demand Module also incorporates combined heat and power (CHP) technology. Both modules incorporate changes to “normal” heating and cooling degree-days by Census division, based on a 30-year historical trend and on state-level population projections. The Residential Demand Module projects an increase in the average square footage of both new construction and existing structures, based on trends in new construction and remodeling.

Industrial Demand Module

The Industrial Demand Module (IDM) projects the consumption of energy for heat and power, as well as the consumption of feedstocks and raw materials in each of 21 industry groups, subject to the delivered prices of energy and macroeconomic estimates of employment and the value of shipments for each industry. As noted in the description of the MAM, the representation of industrial activity in NEMS is based on the NAICS. The industries are classified into three groups—energy-intensive manufacturing, non-energy-intensive manufacturing, and nonmanufacturing. Seven of eight energy-intensive manufacturing industries are modeled in the IDM, including energy-consuming components for boiler/steam/cogeneration, buildings, and process/assembly use of energy. Energy demand for petroleum and other liquids refining (the other energy-intensive manufacturing industry) is modeled in the Liquid Fuels Market Module (LFMM) as described below, but the projected consumption is reported under the industrial totals.

There are several updates and upgrades in the representations of select industries. AEO2014 includes an upgraded representation for the glass industry. Instead of assuming that technological development for a particular process occurs on a predetermined or exogenous path based on engineering judgment, these upgrades allow technological change in the glass industry to be modeled endogenously, using a more detailed process flow representation. The upgrade allows for explicit technological change, and therefore energy intensity, to respond to economic, regulatory, and other conditions. The combined cement and lime industries and aluminum industry were upgraded to process flow models in previous AEOs. The iron and steel and paper industries will be similarly upgraded in future AEOs.

Model input data associated with energy intensity were aligned with the Manufacturing Energy Consumption Survey 2010 data. In the bulk chemicals model, behavior of naphtha and ethane prices was modified to better respond to oil price cases. The cement model was modified to include multi-channel burners that add flexibility for fuel mix, allowing the use of significant amounts of secondary fuels, such as alternative solid fuels including tires, plastics, wood, and waste. The model also includes more rapid penetration of energy-efficient grinding. In the food industry, shipments were categorized in more detail, to grain and oil seed milling, dairy, animal slaughter, and all other. Changes also were made to the nonmanufacturing data approach. Census, U.S. Department of Agriculture, and EIA’s Fuel Oil Kerosene Sales data were used to improve projections of petroleum product and natural gas consumption in agriculture, construction, and mining. CHP use is now differentiated by region and industry, based on EIA’s updated historical data.

Transportation Demand Module

The Transportation Demand Module projects consumption of energy by mode and fuel—including petroleum products, electricity, methanol, ethanol, compressed natural gas (CNG), liquefied natural gas (LNG), and hydrogen—in the transportation sector, subject to delivered energy prices, macroeconomic variables such as GDP, and other factors such as technology adoption. The Transportation Demand Module includes legislation and regulations, such as the Energy Policy Act of 2005 (EPACT2005), the Energy Improvement and Extension Act of 2008 (EIEA2008), and the American Recovery and Reinvestment Act of 2009 (ARRA2009), which contain tax credits for the purchase of alternatively fueled vehicles. Representations of LDV CAFE and GHG emissions standards, HDV fuel consumption and GHG emissions standards, and biofuels consumption reflect standards enacted by NHTSA and the EPA, as well as provisions in the Energy Independence and Security Act of 2007 (EISA2007).

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

The Transportation Demand Module projects energy consumption for freight and passenger rail and marine vessels by mode, fuel, and census division, subject to macroeconomic variables such as the value and type of industrial shipments.

Electricity Market Module

There are three primary submodules of the Electricity Market Module (EMM)—capacity planning, fuel dispatching, and finance and pricing. The capacity expansion submodule uses the stock of existing generation capacity, the cost and performance of future generation capacity, expected fuel prices, expected financial parameters, expected electricity demand, and expected environmental regulations to project the optimal mix of new generation capacity that should be added in future years. The fuel dispatching submodule uses the existing stock of generation equipment types, their operation and maintenance costs and performance, fuel prices to the electricity sector, electricity demand, and all applicable environmental regulations to determine the least-cost way to meet that demand. The submodule also determines transmission and pricing of electricity. The finance and pricing submodule uses capital costs, fuel costs, macroeconomic parameters, environmental regulations, and load shapes to estimate generation costs for each technology.

All specifically identified options promulgated by the EPA for compliance with the Clean Air Act Amendments of 1990 are explicitly represented in the capacity expansion and dispatch decisions. All financial incentives for power generation expansion and dispatch specifically identified in EPACT2005 have been implemented. Several States, primarily in the northeast, have enacted air emission regulations for CO₂ that affect the electricity generation sector, and those regulations are represented in AEO2014. The AEO2014 Reference case also imposes a limit on CO₂ emissions for specific covered sectors, including the electric power sector, in California, as represented in California's AB 32. The AEO2014 Reference case reinstates the CAIR after the court vacated CSAPR in August 2012. CAIR incorporates a cap and trade program for annual emissions of SO₂ and annual and seasonal emissions of NO_x from fossil power plants. Reductions in mercury emissions from coal- and oil-fired power plants also are reflected through the inclusion of the Mercury and Air Toxics Standards for power plants, finalized by the EPA on December 16, 2011.

Although currently there is no Federal legislation in place that restricts GHG emissions, regulators and the investment community have continued to push energy companies to invest in technologies that are less GHG-intensive. The trend is captured in the AEO2014 Reference case through a 3-percentage-point increase in the cost of capital, when evaluating investments in new coal-fired power plants, new coal-to-liquids (CTL) plants without carbon capture and storage, and pollution control retrofits.

Renewable Fuels Module

The Renewable Fuels Module (RFM) includes submodules representing renewable resource supply and technology input information for central-station, grid-connected electricity generation technologies, including conventional hydroelectricity, biomass (dedicated biomass plants and co-firing in existing coal plants), geothermal, landfill gas, solar thermal electricity, solar photovoltaics, and both onshore and offshore wind energy. The RFM contains renewable resource supply estimates representing the regional opportunities for renewable energy development. Investment tax credits (ITCs) for renewable fuels are incorporated, as currently enacted, including a permanent 10% ITC for business investment in solar energy (thermal nonpower uses as well as power uses) and geothermal power (available only to those projects not accepting the production tax credit [PTC] for geothermal power). In addition, the module reflects the increase in the ITC to 30% for solar energy systems installed before January 1, 2017. The extension of the credit to individual homeowners under EIA2008 is reflected in the Residential and Commercial Demand Modules.

PTCs for wind, geothermal, landfill gas, and some types of hydroelectric and biomass-fueled plants also are represented, based on the laws in effect on October 31, 2013. They provide a credit of up to 2.3 cents/kilowatthour (kWh) for electricity produced in the first 10 years of plant operation. For AEO2014, new plants under construction before January 1, 2014, are eligible to receive the PTC. Furthermore, eligible plants of any type will qualify if construction begins prior to the expiration date, regardless of when the plant enters commercial service. As part of ARRA2009, plants eligible for the PTC may instead elect to receive a 30% ITC or an equivalent direct grant. AEO2014 also accounts for new renewable energy capacity resulting from state renewable portfolio standard programs, mandates, and goals.

Oil and Gas Supply Module

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

The Onshore Lower 48 Oil and Gas Supply Submodule evaluates the economics of future exploration and development projects for crude oil and natural gas plays. Crude oil resources include structurally reservoired resources (i.e., conventional) as well as highly fractured continuous zones, such as the Austin Chalk and Bakken shale formations. Production potential from advanced secondary recovery techniques (such as infill drilling, horizontal continuity, and horizontal profile) and enhanced oil recovery (such as CO₂ flooding, steam flooding, polymer flooding, and profile modification) are explicitly represented. Natural gas resources include high-permeability carbonate and sandstone, tight gas, shale gas, and coalbed methane.

Domestic crude oil production volumes are used as inputs to the LFMM for conversion and blending into refined petroleum products. Supply curves for natural gas are used as inputs to the Natural Gas Transmission and Distribution Module (NGTDM) for determining natural gas wellhead prices and domestic production.

Natural Gas Transmission and Distribution Module

The NGTDM 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 balances natural gas supply and demand, tracks the flows of natural gas, and determines the associated capacity expansion requirements in an aggregate pipeline network, connecting domestic and limited foreign supply sources with 12 lower 48 states regions.

The 12 lower 48 states regions align with the nine Census divisions, with three subdivided, and Alaska handled separately. The flow of natural gas is determined for both a peak and off-peak period in the year, assuming a historically based seasonal distribution of natural gas demand. Key components of pipeline and distributor tariffs are included in separate pricing algorithms. The primary outputs of the module are delivered natural gas prices by region and sector, supply prices, and realized domestic natural gas production. The module also projects natural gas pipeline imports and exports to Canada and Mexico, as well as LNG imports and exports.

Liquids Fuels Market Module

The LFMM projects prices of petroleum products, crude oil and product import activity, as well as domestic refinery operations, subject to demand for petroleum products, availability and price of imported petroleum, and domestic production of crude oil, NGL, and biofuels—ethanol, biodiesel, biomass-to-liquids (BTL), CTL, gas-to-liquids (GTL), and coal-and-biomass-to-liquids (CBTL). Costs, performance, and first dates of commercial availability for the advanced liquid fuels technologies [9] are reviewed and updated annually.

The module represents refining activities in eight domestic U.S. regions, and a Maritime Canada/Caribbean refining region (created to represent short-haul international refineries that predominantly serve U.S. markets). In order to better represent policy, import/export patterns, and biofuels production, the eight U.S. regions were defined by subdividing three of the five U.S. PADDs. All nine refining regions are defined below:

- Region 1. PADD I - East Coast
- Region 2. PADD II - Interior
- Region 3. PADD II - Great Lakes
- Region 4. PADD III - Gulf Coast
- Region 5. PADD III - Interior
- Region 6. PADD IV - Mountain
- Region 7. PADD V - California
- Region 8. PADD V - Other
- Region 9. Maritime Canada/Caribbean

The LFMM models the costs of automotive fuels, such as conventional and reformulated gasoline, and includes production of biofuels for blending in gasoline and diesel. Fuel ethanol and biodiesel are included in the LFMM because they are commonly blended into petroleum products. The module allows ethanol blending into gasoline at 10% by volume (E10), 15% by volume (E15) in states that lack explicit language capping ethanol volume or oxygen content, and up to 85% by volume (E85) for use in flex-fuel vehicles. The module also includes a 16% by volume biobutanol/gasoline blend. Crude oil and refinery product imports are represented by supply curves defined by the NEMS IEM. Products also can be imported from refining region nine (Maritime Canada/Caribbean). Refinery product exports are represented by demand curves, also provided by the IEM.

Capacity expansion of refinery process units and nonpetroleum liquid fuels production facilities is also modeled in the LFMM. The model uses current liquid fuels production capacity, the cost and performance of each production unit, expected fuel and feedstock costs, expected financial parameters, expected liquid fuels demand, and relevant environmental policies to project the optimal mix of new capacity that should be added in the future.

The LFMM includes representation of the renewable fuels standard (RFS) specified in EISA2007, which mandates the use of 36 billion gallons of ethanol equivalent renewable fuel by 2022. Both domestic and imported biofuels count toward the RFS. Domestic ethanol production is modeled for three feedstock categories: corn, cellulosic plant materials, and advanced feedstock materials. Starch-based ethanol plants are numerous (more than 175 are now in operation, with a total maximum sustainable nameplate capacity of more than 13 billion gallons annually), and are based on a well-known technology that converts starch and sugar into ethanol. Ethanol from cellulosic sources is a new technology with only a few small pilot plants in operation. Ethanol from advanced feedstocks—produced at ethanol refineries that ferment and distill grains other than corn, and reduce GHG emissions by at least 50%—is another new technology modeled in the LFMM. The LFMM also has the capability to produce biobutanol from a retrofitted corn ethanol facility, if economically competitive.

Fuels produced by Fischer-Tropsch synthesis and through a pyrolysis process are also modeled in the LFMM, based on their economics compared with competing feedstocks and products. The five processes modeled are CTL, CBTL, GTL, BTL, and pyrolysis.

Two California-specific policies are also represented in the LFMM: the low carbon fuel standard (LCFS) and the AB 32 cap-and-trade program. The LCFS requires the carbon intensity (amount of greenhouse gases/unit of energy) of transportation fuels sold for use in California to decrease according to a schedule published by the California Air Resources Board. California's AB 32 cap-and-trade program is established to help California achieve its goal of reducing CO₂ emissions to 1990 levels by 2020. Working with other NEMS modules (IDM, EMM, and Emissions Policy Module), the LFMM provides emissions allowances and actual emissions of CO₂ from California refineries, and NEMS provides the mechanism (carbon price) to trade allowances such that the total CO₂ emissions cap is met.

Coal Market Module

The Coal Market Module (CMM) simulates mining, transportation, and pricing of coal, subject to end-use demand for coal differentiated by heat and sulfur content. U.S. coal production is represented in the CMM by 41 separate supply curves—differentiated by region, mine type, coal rank, and sulfur content. The coal supply curves respond to mining capacity, capacity utilization of mines, labor productivity, and factor input costs (mining equipment, mining labor, and fuel requirements). Projections of U.S. coal distribution are determined by minimizing the cost of coal supplied, given coal demands by region and sector; environmental restrictions; and accounting for minemouth prices, transportation costs, and coal supply contracts. Over the projection horizon, coal transportation costs in the CMM vary in response to changes in the cost of rail investments.

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

Annual Energy Outlook 2014 cases

In preparing projections for AEO2014, EIA evaluated a wide range of trends and issues that could have major implications for U.S. energy markets between now and 2040. Besides the Reference case, AEO2014 presents detailed results for four alternative cases that differ from each other due to fundamental assumptions concerning the domestic economy and world oil market conditions. These alternative cases include the following:

Economic Growth -

- In the Reference case, population grows by 0.7%/year, nonfarm employment by 0.8%/year, and labor productivity by 1.8%/year from 2012 to 2040. Economic output as measured by real GDP increases by 2.4%/year from 2012 through 2040, and growth in real disposable income per capita averages 1.7%/year.
- The Low Economic Growth case assumes lower growth rates for population (0.6%/year) and labor productivity (1.4%/year), resulting in lower nonfarm employment (0.7%/year), higher prices and interest rates, and lower growth in industrial output. In the Low Economic Growth case, economic output as measured by real GDP increases by 1.9%/year from 2012 through 2040, and growth in real disposable income per capita averages 1.3%/year.

- The High Economic Growth case assumes higher growth rates for population (0.8%/year) and labor productivity (2.0%/year), resulting in higher nonfarm employment (1.0%/year). With higher productivity gains and employment growth, inflation and interest rates are lower than in the Reference case, and consequently economic output grows at a higher rate (2.8%/year) than in the Reference case (2.4%). Real disposable income per capita grows by 1.7%/year, the same as in the Reference case.

Oil Price Cases –

The benchmark oil price is the price for Brent crude oil, which better reflects the marginal price paid by refineries for imported light, sweet crude oil used to produce petroleum products for consumers. EIA continues to report the WTI price and the Imported Refiner Acquisition Cost.

The historical record shows substantial variability in oil prices, and there is arguably even more uncertainty about future prices in the long term. AEO2014 considers three oil price cases (Reference, Low Oil Price, and High Oil Price) to allow an assessment of alternative views on the future course of oil prices.

The Low and High Oil Price cases reflect a wide range of potential price paths, resulting primarily from variation in demand for petroleum and other liquid fuels in non-OECD countries due to different levels of economic growth. The Low and High Oil Price cases also reflect different assumptions about decisions by members of OPEC regarding the preferred rate of oil production and about the future finding and development costs and accessibility of non-OPEC oil resources.

- In the Reference case, real oil prices (in 2012 dollars) rise from \$112/barrel in 2012 to \$141/barrel in 2040. The Reference case represents EIA's current judgment regarding exploration and development costs and accessibility of oil resources. Compared with AEO2013, EIA sees increasing production from non-OPEC countries, particularly the United States. However, EIA also assumes that OPEC producers will choose to maintain their share of the market and will schedule investments in incremental production capacity so that OPEC oil production will represent between 39% and 44% of the world's total petroleum and other liquids production over the projection period.
- In the Low Oil Price case, crude oil prices fall to \$70/barrel (2012 dollars) in 2016, remain below \$70/barrel through 2023, and stay below \$75/barrel through 2040. The low price results from lower costs of production and lower demand from China and the Middle East compared with the Reference case. Crude oil production from across OPEC rises throughout the projection period in this case, displacing more expensive crude projected in the Reference case (including from the United States). Correspondingly, OPEC's market share of petroleum rises steadily from 40% through 2015 to almost 53% in 2040. In addition, in this case, bitumen production in Canada and renewable fuels from Brazil and the United States see decreases in costs, leading to increased production. This keeps the OPEC market share to between 39% and 51% of the total liquids market. With the exceptions of China and the Middle East, which see reduced economic growth in this case, the lower prices generally lead to higher demand than projected in the Reference case.
- In the High Oil Price case, oil prices reach about \$204/barrel (2012 dollars) in 2040. The high prices result primarily from higher costs of petroleum supply. Fewer structurally reservoired crude oil supplies are developed than in the Reference case, leading to increased development of more costly resources, including tight oil and bitumen. Higher prices also lead to significant increases in renewable liquid fuels and coal-to-liquid products as compared with the Reference case. In this case, OPEC's share of world liquids production never exceeds the high of 42% that it reaches in 2012 and drops as low as 37%. The higher supply costs depress demand globally through 2028, but stronger growth in non-OECD countries than is projected in the Reference case leads to higher demand than in the Reference case, starting in these countries in 2029, and starting globally in 2037.

In addition to these cases, 25 additional alternative cases presented in Table 1.1 explore the impact of changing key assumptions on individual sectors.

Table 1.1. Summary of AEO2014 cases

Case name	Description
Reference	Real GDP grows at an average annual rate of 2.4% from 2012 to 2040. Crude oil price rise to about \$141/barrel (2012 dollars) in 2040.
Low Economic Growth	Real GDP grows at an average annual rate of 1.9% from 2012 to 2040. Other energy market assumptions are the same as in the Reference case.
High Economic Growth	Real GDP grows at an average annual rate of 2.8% from 2012 to 2040. Other energy market assumptions are the same as in the Reference case.
Low Oil Price	Low prices result from a combination of low demand for petroleum and other liquids in the non-Organization for Economic Cooperative Development (non-OECD) nations and higher global supply. Lower demand is measured by lower economic growth compared with the Reference case. On the supply side, the Organization of the Petroleum Exporting Countries (OPEC) increases its liquids market share to 51%, and the costs of other liquids production technologies are lower than in the Reference case. Light, sweet crude oil prices fall to \$70/barrel in 2016 and rise slowly to \$75/barrel in 2040.
High Oil Price	High prices result from a combination of higher demand for liquid fuels in non-OECD nations and lower global supply. Higher demand is measured by higher economic growth compared with the Reference case. OPEC market share averages 37% throughout the projection. Non-OPEC petroleum production expands more slowly in the short to middle term compared with relative to the Reference case. Crude oil prices rise to \$204/barrel (2012 dollars) in 2040.
No Sunset	Begins with the Reference case and assumes extension of all existing tax credits and policies that contain sunset provisions, except those requiring additional funding (e.g., loan guarantee programs) and those that involve extensive regulatory analysis, such as CAFE improvements and periodic updates of efficiency standards. Also includes extension of the \$1.01/gallon ethanol subsidy and \$1.00/gallon biodiesel subsidy to the end of the projection period.
Extended Policies	Begins with the No Sunset case but excludes extension of the ethanol and biofuel subsidies that were included in the No Sunset case. Assumes an increase in the capacity limitations on the ITC for CHP and extension of the program. The case includes additional rounds of efficiency standards for residential and commercial products, as well as new standards for products not yet covered; adds multiple rounds of national building codes by 2026; and increases LDV and HDV fuel economy standards in the transportation sector.
High Rail LNG	Assumes a higher LNG locomotive penetration rate into motive stock such that 100% of locomotives are LNG capable by 2037.
Low Rail LNG	Assumes a lower LNG locomotive penetration rate into motive stock, at a 1.0 average annual turnover rate for dual-fuel engines that can use up to 80% LNG.
High VMT	Assumes higher licensing rates and travel demand for specific age and gender cohorts. Vehicle miles traveled per licensed driver in 2012 is 3% higher than in the Reference case, increasing to 7% higher in 2027, and then declining to 3% above the Reference case in 2040.
Low VMT	Assumes lower licensing rates and travel demand for specific age and gender cohorts. Vehicle miles traveled per licensed driver is 5% lower than in the Reference case for the full projection. Licensing rates stay constant at 2011 levels or decline from 2011 to 2040, specific to gender, age, and census division categories.
Accelerated Nuclear Retirements	Assumes that all nuclear plants are limited to a 60-year life, uprates are limited to the 0.7 gigawatts (GW) that have been reported to EIA, and no new additions beyond those planned in the Reference case. Nonfuel operating costs for existing nuclear plants are assumed to increase by 3%/year after 2013.
Accelerated Coal Retirements	Begins with the AEO2014 High Coal Cost case assumptions and also assumes that nonfuel operating costs for existing coal plants increase by 3%/year after 2013
Accelerated nuclear and Coal Retirements	Combines the assumptions in the Accelerated Nuclear Retirements and Accelerated Coal Retirements cases.
Electricity: Low Nuclear	Begins with the Accelerated Nuclear Retirements case and combines with assumptions in the High Oil and Gas Resource and the No Sunset cases.

Table 1.1. Summary of AEO2014 cases (cont.)

Case name	Description
Electricity: High Nuclear	Assumes that all nuclear plants are life-extended beyond 60 years (except for 4.8 GW of announced retirement), and a total of 6.0 GW of uprates. New plants include those under construction and plants that have a scheduled U.S. Nuclear Regulatory Commission (NRC) or Atomic Safety and Licensing Board hearing.
Renewable Fuels: Low Renewable Technology Cost	Capital costs for new non-hydro renewable generating technologies are 20% lower than Reference case levels through 2040, and biomass feedstocks are 20% less expensive for a given resource quantity. Capital costs for new ethanol, biodiesel, pyrolysis, and other BTL production technologies are 20% lower than Reference case levels through 2040, and the industrial sector assumes a higher rate of recovery for biomass byproducts from industrial processes.
Oil and Gas: Low Oil and Gas Resource	Estimated ultimate recovery per shale gas, tight gas, and tight oil well is 50% lower than in the Reference case. All other resource assumptions remain the same as in the Reference case.
Oil and Gas: High Oil and Gas Resource	Estimated ultimate recovery per shale gas, tight gas, and tight oil well is 50% higher and well spacing is 50% lower (or the number of wells left to be drilled is 100% higher) than in the Reference case. In addition, tight oil resources are added to reflect new plays or the expansion of known tight oil plays and the estimated ultimate recovery for tight and shale wells increases 1%/year to reflect additional technological improvement. Also includes kerogen development, tight oil resources in Alaska, and 50% higher undiscovered resources in lower 48 offshore states, Alaska, and shale gas in Canada than in the Reference case.
Coal: Low Coal Cost	Regional productivity growth rates for coal mining are approximately 2.3 percentage points per year higher than in the Reference case, and coal miner wages, mine equipment costs, and coal transportation rates are lower than in the Reference case, falling to about 25% below the Reference case in 2040. The price change for non-U.S. export supplies is assumed to be roughly 10% less than the price change projected for U.S. coal exports.
Coal: High Coal Cost	Regional productivity growth rates for coal mining are approximately 2.3 percentage points per year lower than in the Reference case, and coal miner wages, mine equipment costs, and coal transportation rates are higher than in the Reference case, ranging between 24% and 31% above the Reference case in 2040. The price change for non-U.S. export supplies is assumed to be roughly 10% less than the price change projected for U.S. coal exports.
Integrated 2013 Demand Technology	Assumes that future equipment purchases in the residential and commercial sectors are based only on the range of equipment available in 2013. Commercial and existing residential building shell efficiency is held constant at 2013 levels. Energy efficiency of new industrial plant and equipment is held constant at the 2014 level over the projection period.
Integrated Best Available Demand Technology	Assumes that all future equipment purchases in the residential and commercial sectors are made from a menu of technologies that includes only the most efficient models available in a particular year, regardless of cost. All residential building shells for new construction are assumed to be code compliant and built to the most efficient specifications after 2013, and existing residential shells have twice the improvement of the Reference case. New and existing commercial building shell efficiencies improve 50% more than in the Reference case by 2040. Industrial and transportation sector assumptions are the same as in the Reference case.
Integrated High Demand Technology	Assumes earlier availability, lower costs, and higher efficiencies for more advanced residential and commercial equipment. For new residential construction, building code compliance is assumed to improve after 2013, and building shell efficiencies are assumed to meet ENERGY STAR requirements by 2023. Existing residential building shells exhibit 50% more improvement than in the Reference case after 2013. New and existing commercial building shells are assumed to improve 25% more than in the Reference case by 2040. Industrial sector assumes earlier availability, lower costs, and higher efficiency for more advanced equipment and a more rapid rate of improvement in the recovery of biomass byproducts from industrial processes. In the transportation sector, the characteristics of conventional and alternative-fuel LDVs reflect more optimistic assumptions about incremental improvements in fuel economy and costs, as well as battery electric vehicle costs. Freight trucks are assumed to see more rapid improvement in fuel efficiency. More optimistic assumptions for fuel efficiency improvements are also made for the air, rail, and shipping sectors.

Table 1.1. Summary of AEO2014 cases (cont.)

Case name	Description
Energy Savings and Industrial Competitiveness Act	Begins with the Reference case and assumes passage of the energy efficiency provisions in S. 1392, including appropriation of funds at the levels authorized in the bill. Key provisions modeled include improved national building codes for new homes and commercial buildings and a rebate program for advanced industrial motor systems, assuming the bill's passage in 2014. For new residential construction, building shell efficiencies are assumed to improve by 15% relative to IECC2009 by 2020, and building code compliance is assumed to improve. New commercial building shells are assumed to be 30% more efficient than ASHRAE 90.1-2004 by 2020.
Low Electricity Demand	This case was developed to explore the effects on the electric power sector if growth in sales to the grid remained relatively low. Begins with the Best Available Demand Technology case, which lowers demand in the building sectors, and also assumes greater improvement in industrial motor efficiency.
No GHG Concern	No GHG emissions reduction policy is enacted, and market investment decisions are not altered in anticipation of such a policy.
GHG10	Applies a price for CO ₂ emissions throughout the economy, starting at \$10 per metric ton in 2015 and rising by 5%/year through 2040.
GHG25	Applies a fee for CO ₂ emissions throughout the economy, starting at \$25 per metric ton in 2015 and rising by 5%/year through 2040.
GHG25 and Low Gas Prices	Combines GHG25 and High Oil and Gas Resource cases.

Carbon dioxide emissions

CO₂ emissions from energy use are dependent on the carbon content of the fossil fuel, the fraction of the fuel consumed in combustion, and the consumption of that fuel. The product of the carbon content at full combustion and the combustion fraction yields an adjusted CO₂ factor for each fossil fuel. The emissions factors are expressed in millions of metric tons of carbon dioxide emitted per quadrillion Btu of energy use, or equivalently, in kilograms of CO₂ per million Btu. The adjusted emissions factors are multiplied by the energy consumption of the fossil fuel to arrive at the CO₂ emissions projections.

For fuel uses of energy, all of the carbon is assumed to be oxidized, so the combustion fraction is equal to 1.0 (in keeping with international conventions). Previously, a small fraction of the carbon content of the fuel was assumed to remain unoxidized. The carbon in nonfuel use of energy, such as for asphalt and petrochemical feedstocks, is assumed to be sequestered in the product and not released to the atmosphere. For energy categories that are mixes of fuel and nonfuel uses, the combustion fractions are based on the proportion of fuel use. In calculating CO₂ emissions for motor gasoline, the direct emissions from renewable blending stock (ethanol) is omitted. Similarly, direct emissions from biodiesel are omitted from reported CO₂ emissions.

Any CO₂ emitted by biogenic renewable sources, such as biomass and alcohols, is considered balanced by the CO₂ sequestration that occurred in its creation. Therefore, following convention, net emissions of CO₂ from biogenic renewable sources are assumed to be zero in reporting energy-related CO₂ emissions; however, to illustrate the potential for these emissions in the absence of any offsetting sequestration, as might occur under related land use change, the CO₂ emissions from biogenic fuel use are calculated and reported separately.

Table 1.2 presents the assumed CO₂ coefficients at full combustion, the combustion fractions, and the adjusted CO₂ emission factors used for AEO2014.

Table 1.2. Carbon dioxide emission factors

million metric tons carbon dioxide equivalent per quadrillion Btu

Fuel Type	Carbon Dioxide Coefficient at Full Combustion	Combustion Fraction	Adjusted Emission Factor
Petroleum			
Propane			
Used as fuel	63.07	1.000	63.07
Used as feedstock	61.07	0.200	12.61
Ethane used as feedstock	59.58	0.200	11.92
Butane used as feedstock	64.94	0.200	12.98
Isobutane used as feedstock	65.08	0.200	13.02
Natural gasoline used as feedstock	66.88	0.300	21.12
Motor gasoline (net of ethanol)	71.26	1.000	71.26
Jet fuel	70.88	1.000	70.88
Distillate fuel (net of biodiesel)	73.15	1.000	73.15
Residual fuel	78.80	1.000	78.80
Asphalt and road oil	75.61	0.000	0.00
Lubricants	74.21	0.500	37.11
Petrochemical feedstocks	71.02	0.410	29.11
Kerosene	72.31	1.000	72.31
Petroleum coke	102.12	0.956	97.60
Petroleum still gas	64.20	1.000	64.20
Other industrial	74.54	1.000	74.54
Coal			
Residential and commercial	95.35	1.000	95.35
Metallurgical	93.71	1.000	93.71
Coke	117.81	1.000	117.81
Industrial other	93.98	1.000	93.98
Electric utility ¹	95.52	1.000	95.52
Natural gas			
Used as fuel	53.06	1.000	53.06
Used as feedstock	53.06	0.437	23.21
Biogenic energy sources			
Biomass	93.81	1.000	93.81
Biogenic waste	90.64	1.000	90.64
Biofuels heats and coproducts	93.81	1.000	93.81
Ethanol	68.42	1.000	68.42
Biodiesel	72.73	1.000	72.73
Liquids from biomass	73.15	1.000	73.15
Green liquids	73.15	1.000	73.15

¹Emission factors for coal used for electricity generation are specified by coal supply region and types of coal, so the average CO₂ content for coal varies throughout the projection. The 2009 average was 95.52.

Source: U.S. Energy Information Administration, *Monthly Energy Review*, August 2013, DOE/EIA-0035(2013/08), (Washington, DC, August 2013).

Notes and sources

[1] U.S. Energy Information Administration, *Annual Energy Outlook 2014* (AEO2014), DOE/EIA-0383(2014), (Washington, DC, April 2014).

[2] NEMS documentation reports are available on the EIA Homepage (www.eia.gov/analysis/model-documentation.cfm).

[3] U.S. Energy Information Administration, *The National Energy Modeling System: An Overview 2009*, DOE/EIA-0581(2009) (Washington, DC, October 2009), <http://www.eia.gov/oiaf/aeo/overview>.