



# Assumptions to the Annual Energy Outlook 2026: Commercial Demand Module

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## Overview

The National Energy Modeling System's (NEMS) [Commercial Demand Module](#) (CDM) projects commercial sector energy demand through 2050. The CDM defines the commercial sector the same way our State Energy Data System (SEDS) defines it; the commercial sector includes business establishments that are not engaged in transportation, manufacturing, or other types of industrial activity (for example, agriculture, mining, or construction). Buildings account for the largest share of commercial sector energy consumption; however, our projections implicitly include streetlights, pumps, bridges, and public services if the establishment operating them is classified as commercial.

Because most commercial energy consumption occurs in buildings, the CDM relies on the data from our *Commercial Buildings Energy Consumption Survey* (CBECS) to define the commercial sector activity mix, equipment stock, and fuels consumed to provide end-use services.<sup>1</sup> The CDM currently uses data from the [2018 CBECS](#) to develop base year estimates.

The CDM projects consumption by fuel<sup>2</sup> at the census-division level using prices from the NEMS energy supply modules, macroeconomic variables from the NEMS Macroeconomic Activity Module (MAM), and external data sources for technology characterizations and other inputs. We project energy demand for 10 end-use services<sup>3</sup> for 11 building categories<sup>4</sup> in each of the nine U.S. [census divisions](#). The module begins by developing projections of floorspace for the 99 building-category and census-division combinations. Next, we develop the 10 end-use service demands required for the projected floorspace. The CDM projects the electricity generation supplied by distributed generation (DG) and combined-heat-and-power (CHP) technologies. The module chooses the technologies to meet the projected service demands for the seven major end uses. The CDM then calculates the energy consumed by existing and purchased equipment to meet the projected end-use service demands. We model minor end uses in less detail. We derive annual energy consumption of select [miscellaneous electric loads](#) (MELs) by combining existing and projected equipment stock, energy consumption per device, and hours of use, where applicable.

In the Counterfactual Baseline projections, we assume that no revolutionary changes in commercial sector technology or consumer behavior will occur through 2050. We assume no new efficiency regulations beyond current law. We assume no new government programs fostering efficiency improvements beyond those that are currently available to commercial consumers. In our Counterfactual Baseline case, technologies that have not gained widespread acceptance today will generally not achieve significant penetration into commercial buildings by the end of the projection period. Currently available technologies will increase in efficiency and decrease in cost. In general, future technologies at the same efficiency level will be less expensive, in real dollar terms, than those available today. When choosing new or replacement technologies, future consumers will behave similarly to today's consumers, and the intensity of end uses will change moderately in response to price changes.<sup>5</sup>

## Key Assumptions

We present the CDM key assumptions in terms of the flow of the calculations described in the previous section. The following sections summarize the assumptions in each of the CDM submodules, which run in this order:

- Floorspace
- Service demand
- Distributed generation
- Technology choice
- End-use consumption

The outputs of each submodule become the inputs to execute the next submodule. As a result, key projection drivers for the Floorspace Submodule are also key drivers for the Service Demand Submodule, and so on.

### Floorspace Submodule

We project floorspace by starting with the previous year's stock of floorspace and eliminating a portion to represent commercial building age-related removal, retirement, or repurposing. Total floorspace is the sum of the surviving floorspace and new additions to the stock derived from the MAM floorspace growth projection.<sup>6</sup>

#### *Existing floorspace and attrition*

We base existing floorspace on the estimated floorspace reported in the 2018 CBECS ([Table 1](#)). We project that, over time, the 2018 stock will decline as buildings are removed from commercial service (floorspace attrition). We estimate floorspace attrition by a logistic decay function, the shape of which depends on the values of two parameters: average building lifetime and gamma. The average building lifetime refers to the median expected lifetime of a particular building type. The gamma parameter corresponds to the rate at which buildings retire near their median expected lifetime. The current values for the average building lifetime and gamma vary by building type ([Table 2](#)).<sup>7</sup>

**Table 1. Total floorspace by census division and principal building activity, 2018**

million square feet

|                    | Assembly | Education | Food sales | Food service | Health care | Lodging | Large office | Small office | Mercantile and service | Ware-house | Other | Total  |
|--------------------|----------|-----------|------------|--------------|-------------|---------|--------------|--------------|------------------------|------------|-------|--------|
| New England        | 499      | 622       | 85         | 61           | 90          | 322     | 324          | 241          | 677                    | 469        | 370   | 3,760  |
| Middle Atlantic    | 1,200    | 1,927     | 55         | 77           | 264         | 886     | 2,056        | 976          | 1,999                  | 1,958      | 828   | 12,226 |
| East North Central | 2,342    | 2,441     | 281        | 216          | 570         | 1,070   | 1,591        | 1,475        | 3,073                  | 3,467      | 954   | 17,480 |
| West North Central | 989      | 1,403     | 123        | 63           | 139         | 589     | 709          | 800          | 1,799                  | 1,388      | 486   | 8,487  |
| South Atlantic     | 2,901    | 2,346     | 85         | 261          | 380         | 1,302   | 2,315        | 1,166        | 2,943                  | 3,054      | 1,182 | 17,935 |
| East South Central | 792      | 822       | 38         | 109          | 114         | 327     | 298          | 371          | 1,017                  | 1,270      | 270   | 5,428  |
| West South Central | 1,486    | 1,803     | 126        | 194          | 231         | 764     | 1,001        | 1,032        | 2,218                  | 2,085      | 638   | 11,579 |
| Mountain Pacific   | 923      | 895       | 96         | 210          | 175         | 696     | 887          | 714          | 1,586                  | 1,066      | 341   | 7,588  |
| Pacific            | 1,445    | 1,380     | 117        | 194          | 330         | 900     | 1,414        | 968          | 1,798                  | 2,960      | 537   | 12,044 |
| Total U.S.         | 12,578   | 13,638    | 1,005      | 1,385        | 2,293       | 6,856   | 10,595       | 7,744        | 17,110                 | 17,717     | 5,606 | 96,527 |

Data source: U.S. Energy Information Administration, [2018 Commercial Buildings Energy Consumption Survey](#) public use microdata

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

**Table 2. Floorspace attrition parameters**

|                                  | Assembly | Education | Food sales | Food service | Health care | Lodging | Large office | Small office | Mercantile and service | Ware-house | Other |
|----------------------------------|----------|-----------|------------|--------------|-------------|---------|--------------|--------------|------------------------|------------|-------|
| Median expected lifetime (years) | 46       | 49        | 39         | 40           | 46          | 40      | 46           | 43           | 38                     | 41         | 46    |
| Gamma                            | 1.21     | 1.38      | 1.02       | 1.43         | 1.39        | 1.40    | 1.98         | 1.45         | 1.26                   | 1.31       | 1.29  |

Data source: U.S. Energy Information Administration, [2018 Commercial Buildings Energy Consumption Survey](#) public use microdata

### *New construction additions to floorspace*

The CDM estimates projected commercial floorspace additions by combining the surviving floorspace estimates with the total floorspace growth projection from MAM. We calculate total NEMS floorspace by applying the MAM-assumed floorspace growth rate within each census division and MAM building type to the corresponding NEMS CDM building types, based on the CBECS principal building activity shares. We then subtract the previous year's NEMS surviving floorspace from the current year's total NEMS floorspace projection to yield new floorspace additions.<sup>8</sup>

## Service Demand Submodule

After we project the building stock, the CDM projects demand for energy-consuming services required for the projected floorspace. The module projects service demands for the following explicit end-use services:

- Space heating
- Space cooling
- Ventilation
- Water heating
- Lighting
- Cooking
- Refrigeration
- Data center servers
- Computers and office equipment

We now report data center server energy use separately from the broader commercial computing end use. *Computers and office equipment* includes laptop and desktop personal computers (PCs), monitors, copiers, fax machines, scanners, multifunction devices, video displays, and other miscellaneous office equipment.

A final *Other uses* category consists of [miscellaneous electric loads](#) (MELs) such as:

- Elevators
- Escalators
- Medical and other laboratory equipment
- Communications equipment
- Security equipment
- Transformers
- Warehouse robots
- Point-of-sale systems
- Televisions
- Uninterruptible power supplies
- Other miscellaneous electrical appliances

Also included in the *other uses* category:

- Commercial energy consumed for combined heat and power
- Minor uses of natural gas and distillate fuel oil
- Uses outside of buildings (such as municipal water services and telecommunications equipment)
- Commercial consumption of residual fuel oil, propane, coal, motor gasoline, and kerosene

We measure the service demand intensity (SDI) in thousand British thermal units (Btu) of end-use service demand per square foot of commercial floorspace, and it differs across service, census division, and building type. We base SDIs on CBECS consumption data,<sup>9</sup> using a hybrid engineering and statistical approach. Projected service demand is the product of floorspace and SDI for all end uses across the 11 building categories. It reflects adjustments for changes in shell efficiency for space heating and cooling and reflects the increasing adoption of sensor and control technologies for energy management.

### *Data center servers*

Data center server energy use is now reported as a distinct commercial end use. Prior to AEO2026, data center server energy use was included as a major component of commercial computing. Data center

servers operate across most commercial building types within data center rooms, and standalone data centers are implicitly represented in the CDM's *Other* building type. We estimate change in annual energy use for data center servers using power draw and installed stock data from Lawrence Berkeley National Laboratory's (LBNL) *2024 United States Data Center Energy Usage Report*<sup>10</sup> and the 2018 CBECS, which indicates the regional and building type distribution of data center rooms.

Growth in data center server use puts upward pressure on space cooling, ventilation, and other computing energy requirements. We assume, for example, that service demand for cooling for data center floorspace was, on average, almost three times as intensive as demand for cooling in non-data center floorspace in 2018. As technology proliferates across the commercial building stock, energy use for data center servers and associated space cooling increases over the projection period. As demand for computation grows, we assume efficiency will begin to partially offset increases in server power draw. Service demand for server computing will be met more efficiently over time as technology improves.

### *Shell efficiency*

The shell integrity of the building envelope is an important factor for space heating and cooling loads for each type of building. The NEMS CDM represents the shell efficiency by separate heating and cooling factors that change over time to reflect improvements in the building shell. The factors, dimensioned by building type and census division, affect the space heating and cooling service demand intensities and change the fuel consumed for these services as the shell integrity improves. We base building shell efficiencies on analysis completed using the [DOE Prototype Building Models](#)<sup>11</sup> and assumptions about building code adoption. Averaged across census divisions and building types, building shells for new construction in 2018 are 30% more efficient for space heating and 25% more efficient for space cooling than the average existing building shell. By 2050, building shell efficiency for newly constructed commercial buildings improves by an average of 55% for space heating and 38% for cooling relative to the existing 2018 building stock. As older buildings retire, we assume that by 2050, the average shell efficiency for buildings constructed before 2018 increases 21% for heating and 17% for cooling relative to the 2018 average.

### *Sensors and controls*

Sensor and control innovations for building energy management can lower the demand for end-use energy services such as space heating, space cooling, ventilation, and lighting. The CDM models the effect of increased adoption of these technologies over the projection. Modeled technologies include:

- Lighting and HVAC (heating, ventilation, and air-conditioning) controls
- Building energy management software (BEMS)
- Automatic fault detection and diagnosis (AFDD)
- Submeters

We use the 2018 CBECS to estimate technology penetration for these technologies by building type in 2018, and we project penetration and savings estimates based on [a report Leidos, Inc., prepared for EIA](#).<sup>12</sup> Service demand is reduced by the estimated savings from the various control technologies that

apply to a given service, adjusted by the projected penetration of the control technologies relative to how widespread the technologies are during the base CBECS year.

### *Distributed generation and combined heat and power*

We base historical data for installations of solar photovoltaic (PV) systems primarily on information from the Wood Mackenzie and the Solar Energy Industries Association's (SEIA) *Solar Market Insight Report 2025 Year in Review*. We use historical data from the Form EIA-860, *Annual Electric Generator Report*, to derive electricity generation by census division, building type, and fuel. We project electricity generation from DG and CHP technologies based on the economic returns projected for those technologies. The module uses a detailed cash-flow approach to estimate the internal rate of return for an investment. Penetration assumptions for DG and CHP technologies are a function of the estimated internal rate of return relative to purchased electricity and of Bass diffusion parameter estimates based on historical capacity data. Table 3 provides the cost and performance parameters for representative DG and CHP technologies. Cost parameters account for tax incentives, including the expansion and extension of the Investment Tax Credit (ITC) for DG technologies as specified in the Inflation Reduction Act (IRA) and subsequently modified by the One Big Beautiful Bill Act (OBBBA). Cost parameters also account for Section 201 tariffs placed on imported solar cells and modules in January 2018. We do not explicitly model end-use energy storage in the commercial sector.

The module also incorporates learning for new DG and CHP technologies, allowing technology costs to decline as shipments increase. For fuel-cell and PV systems, parameter assumptions for the AEO2026 Counterfactual Baseline case result in a 13% reduction in capital costs each time the installed capacity in the residential and commercial building sectors doubles (in the case of PVs, utility-scale capacity is also included for learning). Doubling the installed capacity of microturbines results in a 10% reduction in capital costs, and doubling the installed capacity of distributed wind systems results in a 3% reduction.

## Technology Choice Submodule

The Technology Choice Submodule develops projections of major end-use equipment to meet projected service demands using the three major fuels: electricity, natural gas, and distillate fuel oil. Capital purchase decisions are driven by assumptions about behavioral rule proportions and time preferences (described in the next three sections), as well as:

- Projected fuel prices
- Average annual use of equipment (capacity factors)
- Relative technology capital costs
- Operating and maintenance (O&M) costs

### *Decision types*

In each projection year, equipment is potentially purchased for three decision types:

- Equipment purchased for newly added floorspace
- Equipment that replaces the equipment in existing floorspace that is projected to wear out<sup>13</sup>
- Retrofit equipment purchased to replace economically obsolete equipment or to retain existing equipment. Retrofit equipment is only purchased if the annual operating costs of a current

technology exceed the annualized capital and operating costs of a technology available as a retrofit candidate.

**Table 3. Capital cost and performance of selected commercial distributed generation technologies**

| Technology type          | Year introduced | Average generating capacity (kW <sub>DC</sub> ) <sup>a</sup> | Electrical efficiency <sup>b</sup> | Combined efficiency (electricity plus thermal) <sup>c</sup> | Installed capital cost (2022\$ per kW <sub>DC</sub> ) <sup>d</sup> | Service life (years) |
|--------------------------|-----------------|--|------------------------------------|---|--|----------------------|
| Solar photovoltaic       | 2018            | 48.6   | 0.18                               | N/A   | \$3,676  | 25                   |
|                          | 2020            | 45.4   | 0.20                               | N/A   | \$3,393  | 25                   |
|                          | 2030            | 50.4   | 0.22                               | N/A   | \$2,600  | 25                   |
|                          | 2040            | 53.9   | 0.23                               | N/A   | \$2,185  | 25                   |
|                          | 2050            | 56.6   | 0.24                               | N/A   | \$1,991  | 25                   |
| Fuel cell                | 2018            | 250  | 0.43                               | 0.38  | \$8,875  | 10                   |
|                          | 2020            | 300  | 0.43                               | 0.38  | \$8,234  | 10                   |
|                          | 2030            | 300  | 0.43                               | 0.38  | \$7,150  | 10                   |
|                          | 2040            | 300  | 0.43                               | 0.38  | \$7,150  | 10                   |
|                          | 2050            | 300  | 0.43                               | 0.38  | \$7,150  | 10                   |
| Natural gas engine       | 2018            | 300  | 0.32                               | 0.48  | \$3,865  | 25                   |
|                          | 2020            | 300  | 0.33                               | 0.47  | \$3,830  | 25                   |
|                          | 2030            | 300  | 0.33                               | 0.47  | \$3,769  | 25                   |
|                          | 2040            | 300  | 0.33                               | 0.47  | \$3,769  | 25                   |
|                          | 2050            | 300  | 0.33                               | 0.47  | \$3,769  | 25                   |
| Oil-fired engine         | 2018            | 350  | 0.34                               | 0.55  | \$3,085  | 30                   |
|                          | 2020            | 350  | 0.34                               | 0.55  | \$3,080  | 30                   |
|                          | 2030            | 350  | 0.34                               | 0.55  | \$3,075  | 30                   |
|                          | 2040            | 350  | 0.34                               | 0.55  | \$3,075  | 30                   |
|                          | 2050            | 350  | 0.34                               | 0.55  | \$3,075  | 30                   |
| Natural gas turbine      | 2018            | 3,300  | 0.24                               | 0.41  | \$4,053  | 25                   |
|                          | 2020            | 3,300  | 0.25                               | 0.41  | \$3,979  | 25                   |
|                          | 2030            | 3,300  | 0.25                               | 0.41  | \$3,942  | 25                   |
|                          | 2040            | 3,300  | 0.25                               | 0.41  | \$3,942  | 25                   |
|                          | 2050            | 3,300  | 0.25                               | 0.41  | \$3,942  | 25                   |
| Natural gas microturbine | 2018            | 200  | 0.28                               | 0.40  | \$3,186  | 25                   |
|                          | 2020            | 200  | 0.29                               | 0.39  | \$3,138  | 25                   |
|                          | 2030            | 200  | 0.30                               | 0.39  | \$3,134  | 25                   |
|                          | 2040            | 200  | 0.30                               | 0.39  | \$3,134  | 25                   |
|                          | 2050            | 200  | 0.30                               | 0.39  | \$3,134  | 25                   |
| Wind                     | 2018            | 2,000  | 0.25                               | N/A   | \$3,037  | 25                   |
|                          | 2020            | 2,000  | 0.24                               | N/A   | \$2,656  | 25                   |
|                          | 2030            | 2,000  | 0.24                               | N/A   | \$3,036  | 25                   |
|                          | 2040            | 2,000  | 0.24                               | N/A   | \$3,036  | 25                   |
|                          | 2050            | 2,000  | 0.24                               | N/A   | \$3,036  | 25                   |

Data source: U.S. Energy Information Administration, *Distributed Generation, Battery Storage, and Combined Heat and Power System Characteristics and Costs in the Buildings and Industrial Sectors*; Lawrence Berkeley National Laboratory, *U.S. Distributed Solar and Storage, 2025 Data Update*; National Laboratory of the Rockies, *Annual Technology Baseline*.

<sup>a</sup> kW<sub>DC</sub>=kilowatts (direct current)

<sup>b</sup> For wind, this value represents system capacity factor.

<sup>c</sup> Combined electric and thermal efficiency.

<sup>d</sup> Costs for solar photovoltaic, fuel cell, microturbine, and wind technologies include learning effects.

### Behavior rules

The CDM uses three alternative assumptions about equipment choice behavior. These assumptions constrain the equipment selections to three choice sets, which are increasingly restrictive. The proportion of consumers assumed to use each choice set varies by decision type and building type:

- **Least-cost rule**—Purchase the equipment with the smallest annualized cost, across all fuels, regardless of current technology or fuel used to meet service demand
- **Same-fuel rule**—Purchase equipment that uses the same fuel as existing or retiring equipment, but within that constraint still minimize costs
- **Same-technology rule**—Purchase the same class of technology as the existing or retiring equipment but choose the equipment model within that technology class that minimizes the annualized costs. Under any of these three behavior rules, equipment that meets the service at the lowest annualized lifecycle cost is chosen. Table 4 illustrates the proportions of floorspace subject to the different behavior rules for space heating technology choices in large office buildings.

**Table 4. Assumed behavior rules for choosing space heating equipment in large office buildings**

percentage

|                        | Unrestricted | Same fuel | Same technology | Total |
|------------------------|--------------|-----------|-----------------|-------|
| New equipment decision | 18%          | 34%       | 48%             | 100%  |
| Replacement decision   | 7%           | 31%       | 62%             | 100%  |
| Retrofit decision      | 1%           | 4%        | 95%             | 100%  |

Data source: U.S. Energy Information Administration, *Commercial Demand Module of the National Energy Modeling System: Model Documentation*, DOE/EIA-M066

### Time preferences

We assume the preferences of commercial building owners about current versus future expenditures are distributed among seven alternative time-preference premiums. By adding the risk-adjusted time-preference premiums to the 10-year Treasury note rate from the MAM, the module calculates implicit discount rates, also known as hurdle rates. These hurdle rates apply to the assumed proportions of commercial floorspace. This distribution of discount rates prevents a single technology from dominating purchase decisions in lifecycle cost comparisons. The distribution used for the AEO assigns some floorspace a very high discount (or hurdle) rate to simulate floorspace that will never retrofit existing equipment and that will only use purchased equipment with the lowest capital cost. Discount rates for the remaining six segments of the distribution get progressively lower, simulating increased sensitivity to the fuel costs of the purchased equipment.

The share of floorspace assigned to each rate in the distribution varies by end-use service. Table 5 illustrates the distribution of time-preference premiums for space heating and lighting in 2025. The

proportion of floorspace assumed for the 0.0 time-preference premium represents an estimate of the federally owned commercial floorspace that is subject to purchase decisions in a given year. We expect the federal sector to purchase energy-efficient equipment to meet the federal buildings performance standards of the Energy Policy Act of 2005 (EPACT2005) and the Energy Independence and Security Act of 2007 (EISA2007) when it is cost-effective. For federal purchase decisions relating to energy conservation, cost-effectiveness is determined using a discount rate based on long-term Treasury bond rates, estimated in the CDM by the 10-year Treasury note rate.

For lighting, the proportion of floorspace assumed for the 0.0 time-preference premium is increased to include all federal floorspace. Federal floorspace is included to represent the EISA2007 provision that all federal buildings must have energy-efficient lighting fixtures and bulbs to the maximum extent feasible, including when replacing bulbs in existing fixtures.

**Table 5. Assumed distribution of risk-adjusted time preference premiums for space heating and lighting equipment in 2025**

percentage

| Time preference premium  | Proportion of floorspace—space heating | Proportion of floorspace—lighting |
|--------------------------|--|-----------------------------------|
| 1,000.0                  | 26.6%                                  | 25.6%                             |
| 100.0                    | 23.5%                                  | 24.0%                             |
| 45.0                     | 19.6%                                  | 20.0%                             |
| 25.0                     | 18.7%                                  | 18.9%                             |
| 15.0                     | 9.8%                                   | 7.5%                              |
| 6.5                      | 1.6%                                   | 1.9%                              |
| 0.0                      | 0.2%                                   | 2.1%                              |
| Proportion of floorspace | 100.0%                                 | 100.0%                            |

Data source: Institute of Real Estate Management (IREM), *Building Performance That Pays: Insights from the First IREM Energy Efficiency Survey, 2017*; Navigant, *The Leading Edge of New Energy Efficiency and Renewable Energy Technologies Coming to the Market*, September 2014; and the U.S. Energy Information Administration, *Commercial Demand Module of the National Energy Modeling System: Model Documentation*, DOE/EIA-M066

Changes in fuel prices also affect the distribution of hurdle rates used in the CDM. If a fuel's price rises relative to its price in the base year (2018), the nonfinancial portion of each hurdle rate in the distribution decreases to reflect an increase in the relative importance of fuel costs expected in an environment of rising prices. If the module input for the risk-adjusted time preference premium results in a hurdle rate that is lower than the assumed financial discount rate—15% for the commercial sector—with base-year fuel prices, such as the 0.0 rate (Table 5), we assume no response to increasing fuel prices.

### *Technology characterization menu*

The technology characterization menu organizes all relevant major end-use equipment data. Each equipment vintage, representing a technology class, competes for a share of the technology market against other available vintages that provide the same energy service and that are available at a given time during the projection period. For example, ground-source heat pumps compete for market share against other heating and cooling technologies. We index equipment by:

- Technology
- Vintage
- Fuel
- End-use service provided
- Census division (or building type for ventilation, lighting, and refrigeration end uses)
- Initial market share
- Efficiency (either coefficient of performance or lighting efficacy)
- Installed capital cost per unit of service demand satisfied
- Operating and maintenance cost per unit of service demand satisfied
- Average service life
- Year of initial availability
- Last year available for purchase

Equipment can be selected to satisfy service demand only if it is available in the year the decision is made. Selected equipment becomes part of the existing stock and is subject to potential replacement or retrofit in future years. Because of this flexibility in limiting equipment availability, we can directly model equipment efficiency standards. Table 6 provides a sample of the technology data for space heating in the New England Census Division.

**Table 6. Capital cost and efficiency ratings of selected commercial space heating equipment**

| Equipment type               | Vintage                              | Efficiency <sup>a</sup> | Capital cost (2022\$ per MMBtu <sup>b</sup> /hour) | Maintenance cost (2022\$ per MMBtu/hour) | Service life (years) |
|------------------------------|--------------------------------------|-------------------------|--|--|----------------------|
| Rooftop air-source heat pump | 2018 installed base                  | 3.30                    | \$104.00   | \$0.04                                   | 21                   |
|                              | 2022 typical                         | 3.40                    | \$166.00   | \$0.04                                   | 21                   |
|                              | 2022 ENERGY STAR®                    | 3.40                    | \$150.33   | \$0.04                                   | 21                   |
|                              | 2022 high efficiency                 | 3.70                    | \$209.56   | \$0.04                                   | 21                   |
| Ground-source heat pump      | 2018 installed base                  | 3.70                    | \$466.15   | \$3.75                                   | 54                   |
|                              | 2022 typical                         | 3.50                    | \$466.15   | \$3.50                                   | 15                   |
|                              | 2022 high efficiency                 | 3.60                    | \$495.10   | \$3.75                                   | 15                   |
| Electric boiler              | 2022 typical                         | 0.98                    | \$21.23  | \$0.23                                   | 15                   |
| Electric resistance heater   | 2022 installed base                  | 1.00                    | \$32.18  | \$0.01                                   | 18                   |
| Natural gas heat pump        | 2018 Installed base                  | 1.40                    | \$274.17   | \$5.83                                   | 15                   |
|                              | 2018 residential-type installed base | 1.30                    | \$133.29   | \$3.33                                   | 15                   |
|                              | 2022 typical                         | 1.40                    | \$342.50   | \$5.83                                   | 15                   |
| Natural gas furnace          | 2018 installed base                  | 0.80                    | \$7.94   | \$0.63                                   | 23                   |
|                              | 2022 current standard                | 0.80                    | \$12.70  | \$1.00                                   | 23                   |
|                              | 2023 new standard                    | 0.81                    | \$12.74  | \$0.99                                   | 23                   |
| Natural gas boiler           | 2018 installed base                  | 0.85                    | \$56.37  | \$3.09                                   | 25                   |
|                              | 2022 typical                         | 0.85                    | \$56.37  | \$3.09                                   | 25                   |
|                              | 2022 high efficiency                 | 0.99                    | \$69.73  | \$2.70                                   | 25                   |
| Distillate oil furnace       | 2018 installed base                  | 0.82                    | \$23.81  | \$1.10                                   | 23                   |

| Equipment type        | Vintage               | Efficiency <sup>a</sup> | Capital cost (2022\$ per MMBtu <sup>b</sup> /hour) | Maintenance cost (2022\$ per MMBtu/hour) | Service life (years) |
|-----------------------|-----------------------|-------------------------|--|--|----------------------|
|                       | 2022 typical          | 0.82                    | \$38.10  | \$1.76                                   | 23                   |
|                       | 2022 high efficiency  | 0.85                    | \$39.44  | \$1.74                                   | 23                   |
| Distillate oil boiler | 2018 installed base   | 0.85                    | \$54.76  | \$3.96                                   | 23                   |
|                       | 2022 current standard | 0.82                    | \$50.46  | \$4.10                                   | 23                   |
|                       | 2022 high efficiency  | 0.97                    | \$81.07  | \$3.47                                   | 23                   |
|                       | 2023 new standard     | 0.87                    | \$57.70  | \$3.86                                   | 25                   |

Data source: U.S. Energy Information Administration, *Updated Buildings Sector Appliance and Equipment Costs and Efficiency*, March 2023 (includes complete set of technology data, including cost and efficiency characteristics)

<sup>a</sup> Efficiency metrics vary by equipment type. For example, electric rooftop air-source heat pumps, ground-source heat pumps, and natural gas heat pumps are rated for heating performance using the coefficient of performance (COP); natural gas and distillate furnaces and boilers reflect thermal efficiency.

<sup>b</sup> MMBtu=million British thermal units

We also have the option to enable endogenous price-induced technological change in determining equipment costs and availability for the menu of equipment. This concept allows future technologies to diffuse faster into the marketplace if fuel prices increase significantly for a sustained period. This option was not used for the AEO2026 model runs.

## End-Use Consumption Submodule

The End-Use Consumption Submodule calculates the consumption of each of the three major fuels (electricity, natural gas, and distillate fuel oil) for the 10 end-use services plus fuel consumption for CHP and district services.<sup>14</sup> For major end-use services, we divide the end-use service demand met by the equipment by its efficiency to find the energy consumption for each type. The energy used for each end-use service is equal to the sum of energy used by all existing equipment types for that service. This calculation includes dimensions for census division, building type, and fuel. We project consumption of minor fuels (residual fuel oil, propane, motor gasoline, kerosene, and coal) based on historical trends. We assume no projected growth in commercial coal consumption after a period of historical decline in demand.

### *Equipment efficiency*

We initially base the average energy consumption of an appliance on estimates taken from the 2018 CBECS. As the stock efficiency changes during the model simulation, energy consumption decreases nearly as much as, but not quite proportionally to, the increase in efficiency. The difference is a result of the efficiency calculation using the harmonic average<sup>15</sup> and the efficiency rebound effect. For example, if electric heat pumps are now 10% more efficient on average than in 2018, and all else remains constant (weather, real energy prices, shell efficiency, etc.), energy consumption per heat pump would average about 9% less. The Service Demand Submodule and Technology Choice Submodule together determine the average stock efficiency used in adjusting the initial average energy consumption.

### *Adjusting for weather and climate*

We account for the effect of weather on space heating and air conditioning to avoid projecting abnormal demand based on weather conditions in the base year. In the CDM, we make proportionate adjustments to space heating and air-conditioning demand by census division. We base these

adjustments on the National Oceanic and Atmospheric Administration's (NOAA) heating degree day (HDD) and cooling degree day (CDD) data. A 10% increase in HDDs would increase space heating consumption by 10%, and a 10% increase in CDDs would increase cooling consumption by about 11%. State-level projections of degree days beyond the most recent historical month of data follow a linear trend using the most recent 30 years of complete annual historical degree-day data, which are then population-weighted to the census division level. In this way, the CDM accounts for projected population migrations across the nation and continues any realized historical changes in degree days at the state level.

### *Short-term price effect and efficiency rebound*

We assume energy consumption for a given end-use service is affected by the marginal cost of providing that service. So, all else equal, a change in a fuel price will have an inverse, but less than proportional, effect on fuel consumption. The current value for the short-term price elasticity parameter is -0.25 for all major end uses except refrigeration. For commercial refrigeration, we use -0.10. We use -0.05 for computing and office equipment, and for other minor uses of electricity. For example, for lighting, this value implies that for a 1.0% increase in the price of a fuel, energy consumption will decrease by 0.25%.

Another way of affecting the marginal cost of providing a service is through equipment efficiency. As equipment efficiency changes over time, so will the marginal cost of providing the end-use service. We assume commercial consumers may increase their demand for service based on the reduced cost. The short-term elasticity parameter for efficiency rebound effects is -0.15 for affected end uses; therefore, the demand for the service will rise by 1.5% (-10% multiplied by -0.15). All services are affected by the short-term price effect. The efficiency rebound affects the following services: space heating and cooling, water heating, ventilation, and lighting.

### *Energy efficiency rebates*

Energy-efficient space heating, cooling, lighting, water heating, and refrigeration end-use technologies are given rebates to more explicitly reflect energy efficiency program expenditures. Energy efficiency rebates are often provided at the utility and local scale, but the NEMS CDM does not represent this level of detail. Rather, average rebate levels vary at the census division level and by technology. Table 7 shows energy efficiency rebate levels by end use. Certain appliance rebates may change slightly over time as the incremental cost of the technology changes.

**Table 7. Selected commercial energy efficiency rebates**

percentage of installed cost

| Equipment type   | New England | Middle Atlantic | East N. Central | West N. Central | South Atlantic | East S. Central | West S. Central | Mountain | Pacific |
|--|-------------|-----------------|-----------------|-----------------|----------------|-----------------|-----------------|----------|---------|
| Rooftop air-source heat pump (ENERGY STAR/high efficiency) | 3%          | 8%              | 6%              | 2%              | 11%            | 2%              | 1%              | 5%       | 28%     |
| Natural gas furnace  | 7%          | 12%             | 0%              | 1%              | 0%             | 0%              | 0%              | 0%       | 2%      |
| Ground-source heat pump (mid to high efficiency)           | 21%         | 17%             | 2%              | 0%              | 0%             | 0%              | 0%              | 0%       | 0%      |
| Rooftop AC <sup>a</sup>                                    | 3%          | 2%              | 2%              | 2%              | 2%             | 2%              | 1%              | 2%       | 4%      |
| Residential-type central AC                                | 4%          | 4%              | 3%              | 3%              | 2%             | 1%              | 11%             | 3%       | 6%      |
| Heat pump water heater                                     | 2%          | 1%              | 0%              | 1%              | 1%             | 0%              | 1%              | 0%       | 2%      |
| Natural gas water heater                                   | 9%          | 8%              | 3%              | 3%              | 0%             | 0%              | 6%              | 5%       | 5%      |

Data source: U.S. Energy Information Administration, *Northeast Regional Energy Efficiency Database (REED) 2021 data update*; U.S. Energy Information Administration, *Northeast Regional Energy Efficiency Database (REED), Program and Measure Data: Report on Results of Investigations*, May 2020; U.S. Energy Information Administration, *Assessing Existing Energy Efficiency Program Activity*, June 2018; ENERGY STAR Summaries of Programs; and Consortium for Energy Efficiency (CEE) Program Summaries

<sup>a</sup> Air conditioning

## Legislation and Regulations

### One Big Beautiful Bill Act (P.L. 119-21)

The H.R. 1 legislation (OBBBA) passed in July 2025 ends various energy efficiency and clean energy investment tax credit (ITC) provisions after 2025 and 2026. For qualified commercial equipment placed in service in 2025, OBBBA allows 100% bonus depreciation for year one. The value of this tax incentive, less any other concurrent subsidies, is applied to partially offset the installed cost of solar PV and small wind equipment, as well as ground-source heat pumps and solar thermal water heaters in the CDM's technology menus. See OBBBA assumptions and AEO2026 *Legislation and Regulations* documentation for a description of distinct OBBBA provisions.

### Inflation Reduction Act of 2022 (P.L. 117-169)

H.R. 5376, passed in August 2022, extends and expands the ITC provisions of the Energy Policy Act of 2005 (EPACT2005) for renewable energy technologies. The new clean energy provisions of the Inflation Reduction Act (IRA) support deployment of commercial solar and wind energy systems. These provisions allow a 30% tax credit through 2050 that decreases if the United States reaches its emissions-reduction targets. The IRA also allows for a 6%–10% tax credit for small-scale, combined-heat-and-power systems installed in the commercial sector, with possible rate increases if bonus requirements are met. In the AEO2026 Counterfactual Baseline case, we assume commercial systems are eligible for the 10% credit through 2024. The credit is directly incorporated into the cash-flow approach for projecting distributed generation by commercial solar PV and wind systems, fuel cells, and microturbines. A 30% tax credit is factored into the installed capital cost assumptions for geothermal space heating and cooling and solar water heaters through 2032. See the *Issues in Focus: Inflation Reduction Act Cases in the AEO2023* and the [AEO2023 narrative](#) for a description of distinct IRA provisions.

### **Infrastructure Investment and Jobs Act (P.L. 117-58)**

In November 2021, Congress passed the Infrastructure Investment and Jobs Act, sometimes referred to as the Bipartisan Infrastructure Law, or BIL. The BIL has several energy provisions that are discussed in detail in *The Bipartisan Infrastructure and Jobs Act in the Annual Energy Outlook 2022*. Regarding commercial buildings, the law supports expanded rural broadband access and state and local energy code adoption, which is intended to improve energy efficiency in buildings. These measures are not explicitly modeled in the CDM but may affect building code adoption and compliance across the United States and MELs penetration in rural areas in future years.

### **Consolidated Appropriations Act, 2021 (P.L. 116-260)**

Passed in December 2020, this act extended the phase out of ITCs by two more years for distributed generation equipment. Commercial ITCs drop to 10% after 2023. We do not apply any safe harbor provisions to distributed generation equipment ITCs in the buildings sector. We assume all systems are installed within the same calendar year as the relevant ITC rate.

### **Bipartisan Budget Act of 2018 (P.L. 115-123)**

The Bipartisan Budget Act, passed in February 2018, extends ITC provisions for several technologies not covered by the 2016 Consolidated Appropriations Act, including geothermal heat pumps, qualified fuel cell and microturbine equipment, combined heat and power, and qualified small wind. For these technologies, the extension applies to equipment under construction before January 1, 2022.

### **Solar PV Tariffs under Section 201 of the Trade Act of 1974 (P.L. 93-618)**

Effective February 2018, the United States imposed four-year tariffs on imported solar PV cells and modules. The tariff level is 30% in the first year, declining by 5% per year during the remaining three years. The tariff includes an exemption for 2.5 gigawatts (GW) of PV cells per year and also excludes some developing countries.

### **Tax Cuts and Jobs Act of 2017 (P.L. 115-97)**

The Tax Cuts and Jobs Act, passed in December 2017, introduces 100% expensing for qualified property—including geothermal heat pumps, solar PV, and solar thermal water heating—placed in service between September 27, 2017, and January 1, 2023. This provision allows the full cost of this equipment to be deducted from a firm's tax bill in the first year. Qualified property placed in service from 2023 to 2026 receives a 50% bonus depreciation.

### **Consolidated Appropriations Act of 2016 (P.L. 114-113)**

H.R. 2029, passed in December 2015, extends the ITC provisions of EPACT2005 for renewable energy technologies. The five-year ITC extension for solar energy systems allows a 30% tax credit through 2019, decreasing to 26% in 2020 and then to 22% in 2021. From 2022 to 2050, the ITC for solar remains at 10%. The credit is directly incorporated into the cash-flow approach for projecting distributed generation by commercial PV systems and is factored into the installed capital cost assumptions for solar water heaters.

## American Recovery and Reinvestment Act of 2009 (ARRA2009)

ARRA2009, passed in February 2009, provides energy-efficiency funding for federal agencies, State Energy Programs (SEP), and block grants. To account for the impact of this funding, we assume states adopt and enforce the American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE) 90.1-2007 standard by 2018 for building shell measures. We assume all public buildings (federal, state, and local) use the 10-year Treasury note rate for purchase decisions related to both new construction and replacement equipment while ARRA stimulus package funding is available. We assume a percentage of the SEP and Conservation Block Grant funding is used for solar PV and small wind turbine installations. Additional stimulus funding is applied to fuel cell installations.

The ARRA2009 provisions remove the cap on the 30% business ITC for wind turbines. The ITC was available for systems installed through 2016. These credits are directly incorporated into the cash-flow approach for distributed generation (DG) systems.

## Energy Improvement and Extension Act of 2008 (EIEA2008)

EIEA2008, passed in October 2008, extended the ITC provisions of EPACT2005 and expanded the credit to include additional technologies. The ITCs of 30% for solar energy systems and fuel cells and 10% for microturbines were extended through 2016. The cap on the fuel cell credit was increased from \$500 to \$1,500 per half kilowatt of capacity. The EIEA2008 provisions expanded the ITC to include a 10% credit for combined-heat-and-power (CHP) systems and ground-source heat pumps and a 30% credit for wind turbines with the wind credit capped at \$4,000. The expanded credits were available for systems installed through 2016. These credits are directly incorporated into the cash-flow approach for DG systems, including CHP, and they are factored into the installed capital cost assumptions for solar water heaters and ground-source heat pumps.

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

EISA2007, passed in December 2007, provides standards for specific, explicitly modeled commercial equipment. EISA2007 requires specific energy-efficiency measures in commercial walk-in coolers and walk-in freezers effective January 1, 2009, and an additional update became effective in 2017. Incandescent and halogen lamps must meet standards for maximum allowable wattage based on lumen output starting in 2012. Metal halide lamp fixtures using lamps between 150 watts and 500 watts must have a minimum ballast efficiency ranging from 88% to 94%, depending on ballast type, effective January 1, 2009. Additional requirements became effective in 2017.

For general service lighting (GSL)—including A-type and PAR38 bulbs used in commercial applications—a backstop standard in EISA2007 required bulbs to achieve efficiencies of 45 lumens per watt in 2020. In December 2019, the U.S. Department of Energy issued a final rule to eliminate this backstop standard. We first incorporated this final rule in the AEO2021. However, for AEO2023, we reinstated the backstop starting in 2023, when the backstop was fully enforced.

The EISA2007 requirement for federal buildings to use energy-efficient lighting fixtures and bulbs to the maximum extent possible is represented by adjusting the proportion of the commercial sector assumed to use the 10-year Treasury note rate as an implicit discount (or hurdle) rate for lighting.

## Energy Policy Act of 2005 (EPACT2005)

The passage of EPACT2005 in August 2005 provided additional minimum efficiency standards for commercial equipment. Some of the standards for explicitly modeled equipment, effective January 1, 2010, include:

- An increased Energy Efficiency Rating (EER) for small package air-conditioning and heating equipment
- Daily electricity consumption limits by volume for commercial refrigerators, freezers, and refrigerator-freezers  
Electricity consumption limits per 100 pounds of ice produced based on equipment type and capacity for automatic ice makers

EPACT2005 adds standards for medium-base compact fluorescent lamps effective January 1, 2006, and for ballasts for Energy Saver fluorescent lamps effective in 2009 and 2010. It also bans manufacturing or importing mercury-vapor lamp ballasts effective January 1, 2008.

Several efficiency standards in EPACT2005 pertain to equipment not explicitly represented in the NEMS CDM. However, we account for these standards. For example, we estimate the share of projected miscellaneous electricity use can be attributed to losses from low-voltage, dry-type transformers. Effective January 1, 2007, low-voltage, dry-type distribution transformers are required to meet the National Electrical Manufacturers Association Class I Efficiency Levels, with minimum efficiency levels ranging from 97.0% to 98.9%, based on output. For illuminated exit signs, traffic signals, and commercial premise spray valves, assumed energy reductions are calculated based on per-unit savings relative to a baseline unit and the estimated share of installed units and sales that already meet the standard. Total projected reductions are phased in over time to account for stock turnover. Under the EPACT2005 standards, illuminated exit signs and traffic signal modules must have met ENERGY STAR program requirements as of January 1, 2006. The requirements limit input power demand to 5 watts or less per face for exit signs. Nominal wattages for traffic signal modules are limited from 8 watts to 15 watts, based on module type. Commercial pre-rinse spray valves<sup>16</sup> must have a maximum flow rate between 1.00 gallon and 1.28 gallons per minute, effective January 1, 2019, which results in energy reductions because of reduced hot water use.

EPACT2005 expanded the business ITC to 30% for solar property installed in 2006 and 2007. ITCs of 30% for fuel cells and 10% for microturbine power plants were also available for property installed in 2006 and 2007. Congress extended the EPACT2005 tax credit provisions in December 2006 to cover equipment installed in 2008. These credits are directly incorporated into the cash-flow approach for distributed generation systems and are factored into the installed capital cost assumptions for solar hot water heaters.

## Energy Policy Act of 1992 (EPACT1992)

A key assumption incorporated in the technology selection process is that the equipment efficiency standards described in EPACT1992 constrain minimum equipment efficiencies. We model the effects of these standards by modifying the technology database to eliminate equipment that no longer meets the

minimum efficiency requirements. Some of the EPCACT1992 standards implemented in the module include:

- Natural gas- and oil-fired boilers—minimum combustion efficiency of 0.80 and 0.83, respectively, amended to minimum thermal efficiency of 0.80 and 0.81, respectively, in 2012
- Natural gas- and oil-fired furnaces—minimum thermal efficiency of 0.80 and 0.81, respectively
- Electric water heaters—minimum energy factor of 0.85
- Natural gas and oil water heaters—minimum thermal efficiency of 0.80

A fluorescent lamp ballast standard, effective in 2005, requires electronic ballasts with a minimum ballast efficacy factor of 1.17 for 4-foot, two-lamp ballasts and an efficacy factor of 0.63 for 8-foot, two-lamp ballasts. Fluorescent lamps and incandescent reflector lamp bulbs must have met amended standard levels for minimum average lamp efficacy in 2012. Other updates for commercial refrigeration equipment include maximum energy consumption standards for refrigerated vending machines and display cases based on volume.

The 10% business ITC for solar energy property included in EPCACT1992 was extended by the *Consolidated Appropriations Act, 2021* and is directly incorporated into the cash-flow approach for projecting distributed generation by commercial PV systems after 2023. For solar water heaters, we factor the tax credit into the installed capital cost assumptions used in the Technology Choice Submodule.

## Energy efficiency programs

Several energy efficiency programs affect the commercial sector. These programs are designed to stimulate investment in more efficient building shells and equipment for heating, cooling, lighting, and other end uses. The CDM includes several features that allow projected efficiency to increase in response to voluntary programs (for example, the distribution of risk-adjusted time preference premiums and shell efficiency parameters). Equipment retrofits for space heating, air conditioning, and lighting are incorporated in the distribution of premiums (Table 5). In addition, we assume the shell efficiencies of new and existing buildings increase from 2012 through 2050 (as discussed in the section on shell efficiency). Finally, we model utility energy efficiency programs explicitly (Table 7).

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## Notes and Sources

<sup>1</sup> U.S. Energy Information Administration, [2018 Commercial Buildings Energy Consumption Survey](#) (CBECS) public use microdata.

<sup>2</sup> The CDM accounts for electricity, natural gas, distillate fuel oil, residual fuel oil, propane, coal, motor gasoline, and kerosene. Current commercial use of biomass (wood and municipal solid waste) is also included. In addition to these fuels, the use of solar energy is projected based on an exogenous estimate of existing solar PV system installations, projected installations as a result of state and local incentive programs, and the potential endogenous penetration of solar PV systems and solar thermal water heaters. The use of wind energy is projected based on an estimate of existing distributed wind turbines and the potential endogenous penetration of wind turbines in the commercial sector.

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<sup>3</sup> The end-use services in the CDM are heating, cooling, water heating, ventilation, cooking, lighting, refrigeration, data center servers, computers and office equipment, and other uses (a category that accounts for all other minor end uses).

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

<sup>5</sup> [Commercial Demand Module – NEMS Documentation](#) contains additional details concerning model structure and operation. Refer to U.S. Energy Information Administration, [Commercial Demand Module–NEMS Documentation](#), DOE/EIA-M066.

<sup>6</sup> The Macroeconomic Activity Module estimates commercial floorspace growth rates using data from Dodge Data and Analytics.

<sup>7</sup> The CDM performs attrition for 10 vintages of floorspace developed using stock estimates from the 2018 CBECs.

<sup>8</sup> If the computation of additions produces a negative value for a specific building type, the value is assumed to be zero.

<sup>9</sup> Based on 2018 CBECs end-use-level consumption data developed using the methodology described in [Estimation of Energy End-Use Consumption](#).

<sup>10</sup> Shehabi, Arman, Sarah Josephine Smith, Alex Hubbard, Alexander Newkirk, Nuoa Lei, Md AbuBakar Siddik, Billie Holecek, Jonathan G. Koomey, Eric R. Masanet, and Dale A. Sartor. [2024 United States Data Center Energy Usage Report](#). Berkeley, CA: Lawrence Berkeley National Laboratory, 2024.

<sup>11</sup> U.S. Department of Energy, [Prototype Building Models](#), Building Energy Codes Program, Accessed January 30, 2026.

<sup>12</sup> Leidos, Inc., [Trends in Commercial Whole-Building Sensors and Controls](#), prepared for U.S. Energy Information Administration, December 2020.

<sup>13</sup> The proportion of equipment retiring is inversely related to the equipment life.

<sup>14</sup> District services involve the production of steam, hot water, or chilled water at a central physical plant, which is then distributed over a wide area, such as a campus or urban center, to provide space heating, water heating, cooling, or a combination of these. In the CDM, projected district services demand by end-use service is converted to consumption of the source fuels used by the central plant and added to energy consumption for the appropriate end-use service.

<sup>15</sup> The harmonic average refers to the reciprocal of the arithmetic mean of the reciprocals of a number set. This technique is often better suited to averaging rates (such as efficiencies) than the arithmetic mean.

<sup>16</sup> Commercial pre-rinse spray valves are handheld devices used to remove food residue from dishes and flatware before cleaning.