MARKAL at ECN

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MARKAL (MARKet ALlocation) is a family of dynamic bottom-up energy system models developed and supported by the Energy Technology Systems Analysis Programme (ETSAP), one of the Implementing Agreements of the International Energy Agency (ETSAP, 2006). While originally MARKAL models were of the linear programming (LP) type – which is still mostly the case – the framework today has been extended to in principle also include more refined modelling tools that allow for e.g. solving more complex programmes such as mixed integer problems (see, for example, Seebregts *et al.*, 2001). MARKAL models are applied in a broad variety of settings, benefit from technical support by a large international research community, and are today implemented in more than 40 countries. This chapter gives an overview of the main features of MARKAL, in particular including concise descriptions of the objective function of the programme (section 1), the simulation of technological change (section 2), the representation of cluster learning (section 3), the modelling of elastic energy demand (section 4), and specific characteristics as relevant for the European context (section 5).

1. Introduction

In its basic formulation MARKAL is a linear optimisation model with the total system costs as its objective function. By minimizing these total costs over the whole time period considered at once, it assumes perfect foresight. Thus, it reflects a perfectly transparent market with rational behaviour of all market players. Government interventions or specific social preferences, that essentially distort the free market, can be simulated through the use of constraints imposed by the modeller. These may range from generic instruments such as CO_2 taxes to technology-specific choices to (gradually or abruptly) stimulate or abolish certain energy options or resources.

The net present value of total costs, *NPV*, is the objective function, and consists of the sum over all regions of the discounted present value of the stream of annual costs incurred in each year of the overall time horizon (ETSAP, 2006):

$$NPV = \sum_{r=1}^{R} \sum_{t=1}^{NPER} (1+d)^{1-t} \bullet ANNCOST(r,t) \bullet \left(1 + (1+d)^{-1} + (1+d)^{-2} + \cdots + (1+d)^{1-NYRS}\right),$$

in which the indices *r* and *t* refer to the region and time period, respectively, *R* is the total number of regions, and *NPER* the number of periods in the overall planning horizon. The parameter *d* is the general discount rate, *ANNCOST(r,t)* the annual (or, rather, 'periodal') total energy system cost (per region and period), while the last factor in the expression represents the *intra*-period discount factor and *NYRS* the number of years in each period.

ANNCOST(r,t) is expressed as:

$$ANNCOST(r,t) = \Sigma_k \{Annualized\_Invcost(r,t,k) \bullet INV(r,t,k)$$
$$+ Fixom(r,t,k) \bullet CAP(r,t,k)$$
$$+ Varom(r,t,k) \bullet \Sigma_s ACT(r,t,k,s)$$
$$+ \Sigma_c [Delivcost(r,t,k,c) \bullet Input(r,t,k,c) \bullet \Sigma_s ACT(r,t,k,s)] \}$$
$$+ \Sigma_{c,s} \{Miningcost(r,t,c,l) \bullet MINING(r,t,c,l)$$
$$+ Tradecost(r,t,c) \bullet TRADE(r,t,c,s,i/e)$$
$$+ Importprice(r,t,c,l) \bullet IMPORT(r,t,c,l)$$
$$- Exportprice(r,t,c,l) \bullet EMPORT(r,t,c,l) \}$$
$$+ \Sigma_p \{Tax(r,t,p) \bullet ENV(r,t,p)\}$$
$$+ S_d \{DemandLoss(r,t,d)\},$$

in which the indices k, s, c, l and p refer to the technology, year, commodity, price level and pollutant, respectively, while e and i refer to whether the commodity under consideration is sold (exported) or purchased (imported). Decision variables, representing the choices that can be made within the model, are in capitals: $INV(r,t,k)$ is the new capacity added per technology, $CAP(r,t,k)$ the installed capacity for each technology, $ACT(r,t,k,s)$ the technology activity level, $MINING(r,t,c,l)$ the quantity extracted of each commodity, $TRADE(r,t,c,s,i)$ and $TRADE(r,t,c,s,e)$ the quantities per commodity purchased (*i*) or sold (*e*), $IMPORT(r,t,c,l)$ and $EXPORT(r,t,c,l)$ the quantities per good exogenously imported or exported, and $ENV(r,t,p)$ the emissions of each pollutant. $Annualized\_Invcost(r,t,k)$ is the lump sum unit investment cost, $Fixom(r,t,k)$ and $Varom(r,t,k)$ fixed respectively variable operation and maintenance costs, $Delivcost(r,t,k,c)$ the delivery cost per unit of commodity to the technology considered, $Input(r,t,k,c)$ the amount of commodity required to operate one unit of technology, $Miningcost(r,t,c,l)$ the cost of mining, $Tradecost(r,t,c)$ the transport or transaction cost, $Importprice(r,t,c,l)$ the (exogenous) import price per commodity, $Exportprice(r,t,c,l)$ the (exogenous) export price, $Tax(r,t,p)$ the tax on emissions, and $DemandLoss(r,t,d)$ the welfare loss incurred by consumers when the service demand d is less than its value in the reference case.

The assumption of perfect foresight of the future concerns both 'external' pressures such as taxes or emission constraints and 'internal' changes such as technology availability or cost reductions. Model choices are thus made on the basis of the anticipation of both external and internal constraints or opportunities. As such, the programme minimizes the overall energy system costs, while both implicit and/or explicit modelling constraints are duly met. This feature is particularly instrumental for internalising technology learning-by-doing and corresponding technology cost reductions: through perfect foresight the model accounts for the empirically observed phenomena that increased investments in technology deployment may be rewarded (at least partly compensated or even fully paid back) in the form of future cost decreases.

MARKAL is demand-driven, and in its standard formulation energy demand is exogenously determined. In other words, the modeller specifies the demand for energy services as external input. This exogenous energy demand determines the composition of the energy system, in which demand and supply of energy services are balanced. Energy requirements are fulfilled through end-use technologies that consume various types of fuel. Fuels are produced in conversion processes or directly supplied, so that (final) energy demand cascades through the system down to primary

energy supply. The relative competitiveness of each of the chains from primary supply to end-use, together with physical constraints such as the availability of resources, determine which of the technologies enter the solution of MARKAL.

Technologies are characterized as (I) resource, (II) conversion, (III) process, and (IV) end-use related. Depending on the classification of a technology, it is characterised by a number of specific parameters that may be technical in nature (related to e.g. efficiency, emission factors, and fuel use) or more economically determined (such as its lifetime, required investment and operation costs, or the applicable discount rate). The use of technology-specific discount rates facilitates the inclusion of investment behaviour and preferences of different actors. Technology parameters are generally exogenous. Like with the energy demand level, they have to be exogenously provided for all model periods. To facilitate their usage they are gathered in one database that serves as input to every model run. The set of data, their definition and classification, i.e. the time series of all exogenous variables involved, in combination with the objective function and modelling constraints together constitute a specific MARKAL version.

2. Technological change

Originally, MARKAL used exogenously determined time-dependent trajectories for the investment costs of energy technologies. These cost trajectories were based on expert views and on the existing scientific and engineering literature. It was realised, however, that the underlying driver of the gradual decreases in energy technology costs was really technology deployment, rather than time, and that the cost reductions were achieved through the experience obtained with fabricating and operating the technologies. Also, the exogenous simulation of technology costs implied that the model tended to wait with the deployment of a given technology until it became competitive compared to its alternatives, at which point its competitiveness often resulted in a sudden and usually unrealistically massive deployment of that technology. This necessitated the imposition of specific growth limitations allowing for a more gradual phasing in of technologies. The specification of such growth limitations required detailed modelling expertise and manual interference in the input data that did not always guarantee a consistent parameterization and often generated various modelling intricacies. Thus, to render MARKAL more realistic the modelling of time-dependent exogenous technology evolution and the implementation of growth limitations were gradually abandoned.

To reflect the observation that technology cost reductions are often the result of increasing physical deployment, learning curves were implemented in MARKAL. Indeed, many sources had meanwhile indicated that a clear learning-by-doing or learning-by-investing relationship could be observed between the evolution of investment costs, e.g. per unit of capacity, and the cumulated capacity or sales build-up (see, for example, IEA, 2000). The learning curves describing these phenomena, relating the costs of technologies to their capacity or sales, can be expressed by:

$$SC(t) = SC(0)\left(\frac{CC(t)}{CC(0)}\right)^{-b},$$

in which *SC* are the specific investment costs, for example in €/kW$_e$, and *CC* the cumulative capacity, in this case in kW$_e$. The constant *b* is the 'learning elasticity', generally rewritten into the more familiar progress ratio *p*:

$$p = 2^{-b}.$$

The progress ratio is a measure of how fast a technology learns, as it indicates the decrease in specific costs for each doubling of installed capacity. This means that by providing the initial values for capacity and investment costs, as well as the progress ratio, the potential for cost reductions is fully fixed. In an additional step made solely for the purpose of including learning curves in MARKAL, the learning curves are piece-wise linearized. Fir such a linearization an additional parameter has to be given, the maximal achievable capacity, determined in coherence with the chosen segmentation. With this endogenisation of the investment costs, MARKAL calculates the optimal investment levels and timing thereof, using as knowledge the perfectly foreseeable investment cost decreases according to learning curves.

Over the years, the number of technologies for which learning curves were simulated in MARKAL gradually increased, and it became clear that learning spill-overs between technologies had to be reflected. To account for the observation that different technologies may share a common component that is subject to learning, the concept of 'cluster learning' was introduced.

3. Cluster learning

To diversify and correct the description of technological change, the concept of technology clusters was introduced (Seebregts *et al.*, 2000). With previously introduced concepts of learning-by-doing, the basic assumption was that a technology learns as an integral and independent entity. In an extension of that formalism, the technologies that learn are viewed as being built up by underlying entities or components. These low-level components individually learn, rather than the high-level overall technologies. The set of technologies that share a certain component are referred to as a cluster. A cluster of technologies also shares the same learning process of their common component. Since technologies may consist of several components that learn, and components may be part of several sets of clustering technologies at once, the formulation of cluster learning introduces the concept of spill-overs between technologies.

For many of the technologies previously considered as independently learning entities the concept of technology clusters provide a more refined, consistent and correct description of the phenomenon of learning. For example, a natural gas combined cycle power plant consists of a gas turbine, a recovery boiler, and a steam turbine as principal elements, all three characterised by learning phenomena. As these elements or key components are also found in many other technologies, using the cluster learning approach accounts for the learning in these components of all the corresponding technologies at once.

Cluster learning quite naturally allows for the simulation of technology spill-overs: if a technology containing a specific component that learns is deployed, all other technologies sharing this component will automatically benefit from that learning process as well. Thus, incurred experience naturally flows from one technology to all related technologies. In MARKAL the phenomenon of cluster learning is introduced through a single matrix, the so-called cluster matrix. In the cluster matrix, the key components serve as columns and the technologies as rows, while the entries in the matrix cells represent the capacity share of the key component in the technology on a unit per unit basis.

Joint learning does not need to be restricted to technologies within one sector, but can easily be extended to technology spill-over effects between different sectors of the overall energy system. An intuitive example is provided by fuel cell technology. A basic fuel cell component is not only found in stationary applications such as for electricity and heat production but also in mobile applications like vehicle engines. While in an earlier stage the main focus was on learning and cross-technology spill-overs within the power sector, later learning and spill-over effects outside the power sector were included as well. The number of technologies and technology components that are subjected to learning is now so large that the limits of computability have been reached.

4. Demand elasticity

As MARKAL is a demand-driven model, and can in principle only be run with an external specification of final demand for energy services for all time periods, projections of final energy demand have to be obtained from other sources or models. Traditionally, these demand levels are price-insensitive, i.e. they remain unchanged if the prices of the supplied commodities change. The dash-dotted line in Figure 1 represents this fixed demand level. MARKAL generates a supply curve that satisfies the objective function and is stepwise because it is built up by discrete technologies. The total cost derived from the solution can be interpreted as the sum of the integrals under all supply curves.

Recently, MARKAL has been extended to simulate a price-elastic demand for energy. The exogenous demands for energy services have been replaced with energy demand functions that relate energy demand to market prices. The market price of energy services is assumed to be equal to the marginal cost as represented by the shadow price from the standard MARKAL solution. A rather simple demand function characterised by a pre-specified price elasticity is assumed that does not allow for substitution between different demand categories. In order to solve the resulting non-linear problem through a mixed-integer programme, the demand curve is stepwise linearised, and to keep the variations of demand within the range deemed acceptable by the modeller, the maximum allowed deviations upwards and downwards from the equilibrium point are specified.
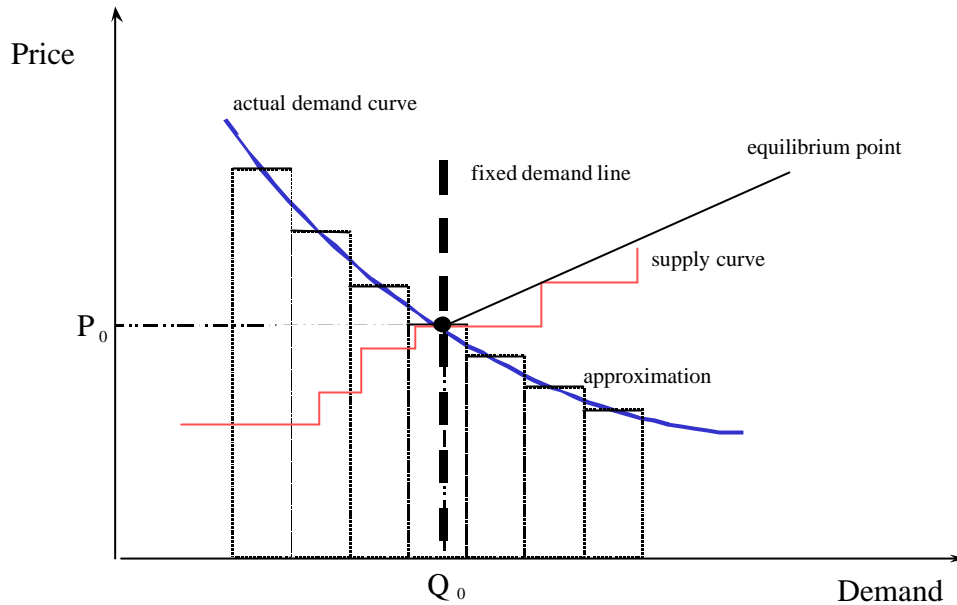
Figure 1. *Price independent demand level of a standard MARKAL model (dash-dotted line), and supply and demand curves (other) as used in the elastic formulation of MARKAL.*

In the absence of an additional modelling constraint, MARKAL generates the same equilibrium point as it does in its non-elastic demand version. If, however, an external constraint is imposed on the energy system that effects the price level of one or more of the final energy services, for example when a CO_2 emission target is set, the model may adjust the demand levels and supply curves to minimise the overall system cost. Compared to the non-elastic version of MARKAL, an additional option for meeting such a modelling constraint is thus allowed for: in this case MARKAL can opt to change the demand level along the stepwise curve, rather than deploying (expensive) emission-reduction technologies.

Thus, in the elastic-demand form of MARKAL, a change in demand level can induce a change towards a different supply curve. Consequently, the equilibrium point will shift along the demand curve. The objective function becomes now the minimisation of the area under the supply curves, or the maximisation of the surface between the demand curves and the supply curves. The surface between the demand curve and the equilibrium price level is a measure for the consumers' surplus, while the surface between the equilibrium price level and the supply curve is a measure for the producers' surplus, as illustrated in Figure 2.

The main reason for introducing a form of price-elasticity in MARKAL is that under stringent CO_2 reduction scenarios it is highly unlikely that the energy system will maintain its original demand level. For example, if a very high CO_2 tax is imposed, the corresponding expected carbon emission reductions are simply too significant to be realised by abatement technologies alone. While the currently employed partial equilibrium method to introduce a piece-wise linearised elastic energy demand does naturally not include the full complexity of the macro-economy, it at least constitutes an option to include the most important effects of price-elasticity without forfeiting the technology richness of a bottom-up model like MARKAL. The results from this

MARKAL version indeed point out the price-responsive behaviour of the different actors in a complex energy system when confronted with e.g. a binding climate constraint.
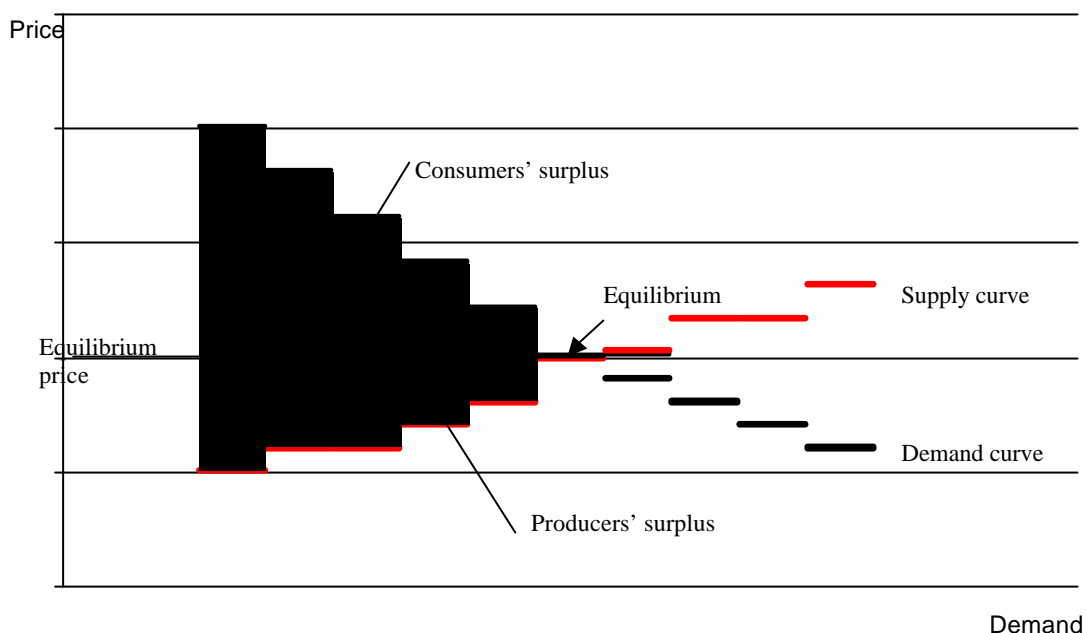

Figure 2. *Producer and consumer surplus.*

5. MARKAL for Western Europe

The MARKAL model currently used by ECN is dedicated to the Western European energy system, with the 15 pre-2004 EU-members together with Norway, Iceland and Switzerland treated as one single region. National boundaries or inter-country exchanges of commodities (both energy and materials) are not considered in this model version, but fuel and material imports into and exports from the region are simulated. This MARKAL version covers the 1990-2100 time frame, modelled in periods of 10 years each.

Some sub-regional aspects of the energy system are considered. For example, in the residential sector the variability in space heat demand is sufficiently relevant to warrant a distinction between the northern, middle and southern part of the region. Consequently, both demand and end-use technologies possess in this case additional regional characteristics. Also the influx from solar radiation displays such variations that a more detailed technological specification is required. In this case, only the corresponding technologies have regional characteristics: associated hereto remains the electricity demand in the entire region. For all other demands and technology chains, technologies are of a generic type (e.g. a pulverized coal power plant, a diesel car, a residential gas boiler, or an electric arc furnace for steel making).
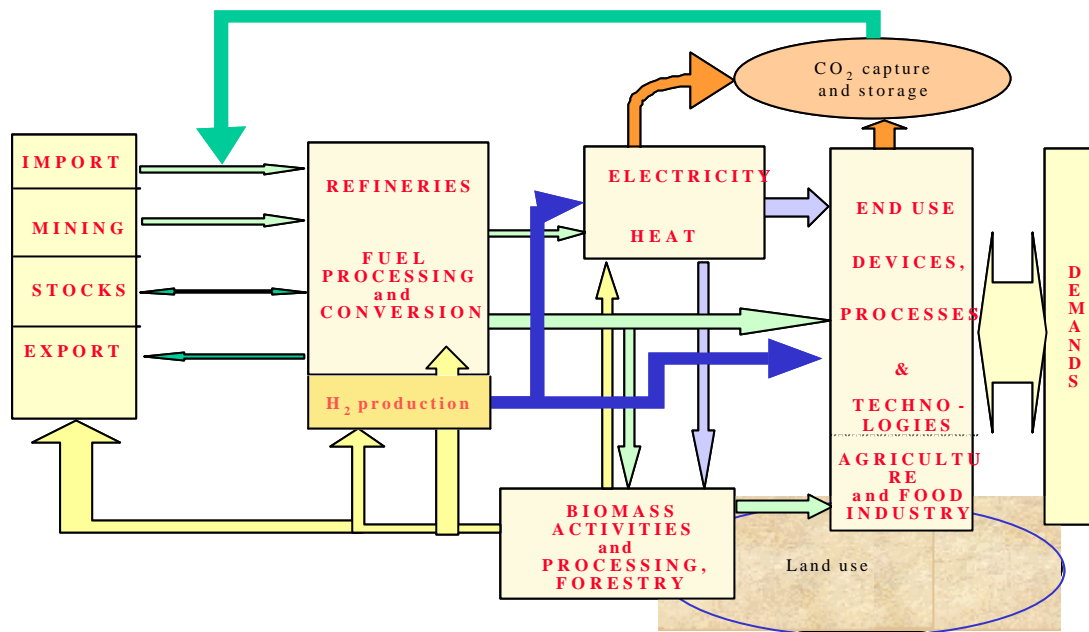
Figure 1 *Schematic overview of the MARKAL reference energy system at ECN.*

MARKAL allows for the expansion and analysis of specific energy technologies. To give an example, the existing model version is currently being extended to include a detailed description of the evolution towards a hydrogen economy. For the TranSust project, on the other hand, we have focused on the internal and external cost features of CCS technologies, and, as described elsewhere in this volume, on the carbon and energy intensity of the overall energy economy (see Smekens and van der Zwaan, 2006).

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