Incorporating uncertainty in vehicle miles traveled projections of the National Energy Modeling System

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Incorporating uncertainty in vehicle miles traveled projections of the National Energy Modeling System

by

David Michael Poetting

A thesis submitted to the graduate faculty in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE

Major: Mechanical Engineering

Program of Study Committee:
W. Ross Morrow, Major Professor
Baskar Ganapathysubramanian
James Bushnell

Iowa State University
Ames, Iowa
2011

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LIST OF NOMENCLATURE

\( C \) fuel cost of driving one mile (2000 cents per mile)
\( c \) \( \log(C) \)
\( E \) fuel economy (miles per gallon)
\( G \) target for vehicle miles traveled per licensed driver (thousand miles)
\( I \) per capita disposable personal income (2000 dollars)
\( i \) \( \log(I) \)
\( M \) deterministic vehicle miles traveled per licensed driver (thousand miles)
\( \tilde{M} \) probabilistic vehicle miles traveled per licensed driver (thousand miles)
\( \bar{M} \) Markovian vehicle miles traveled per licensed driver (thousand miles)
\( m \) \( \log(M) \)
\( N \) normal random variable with mean 0 and variance \( \sigma^2 \)
\( N^* \) weighted summation of all previous normal random variables (\( N \))
\( P \) fuel price (2000 cents per gallon)
\( T \) fuel tax (2000 cents per gallon)
\( x \) vector of inputs \([1 \ m \ i \ c]\)
\( Y \) total number of years projected
\( y \) subscript indicating year
\( \beta \) vector of betas \([\beta_0 \ \beta_m \ \beta_i \ \beta_c]\)
\( \beta_0 \) coefficient for constant term
\( \beta_c \) coefficient for cost of driving
\( \beta_i \) coefficient for income
\( \beta_m \) coefficient for vehicle miles traveled
\( \varepsilon \) serially correlated errors of AR(1) model
\( \rho \) autocorrelation coefficient of AR(1) model
\( \sigma(\sigma^2) \) standard error (variance) of \( N \)
\( \sigma^* \) standard error of \( N^* \)
\( \omega \) degree of certainty for probabilistic decision making

EIA Energy Information Administration
GHG greenhouse gas
NEMS National Energy Modeling System
VMT vehicle miles traveled per licensed driver
I am very grateful for the opportunity to work on this project and the academic and personal growth I have gained from it. I was fortunate to have Ross Morrow as my major professor. I have enjoyed working with Dr. Morrow, whose advice, guidance, and patience has helped me become a much better student and researcher the last two years.

I want to thank my committee members Baskar Ganapathysubramanian and Jim Bushnell for taking the time to review and discuss my research. Their advice and comments are greatly appreciated. I would also like to acknowledge Dan Nordman, who was always happy to meet with me and answer any questions I might have.

A heartfelt thank you goes out to my parents Gary and Kathy Poetting. All of my accomplishments in life are a result of their endless love, support, and belief in me. Lastly, I want to thank my fiancée Masse Carr. This thesis would not have been possible without your love, encouragement, and patience. I cannot possibly thank you enough for everything you have done for me.
The National Energy Modeling System (NEMS) is a computational model that forecasts the production, consumption, and prices of energy in the United States. Although NEMS is a complex and detailed model, it does not currently represent the multitude of uncertainties associated with the US energy system. These uncertainties need to be communicated to policy makers in order for them to develop better-informed decisions regarding energy policy. In this study, uncertainty is added to the vehicle miles traveled (VMT) equation of NEMS to demonstrate the importance and benefit of uncertainty in the model. The VMT model is derived and its uncertain parameters are estimated using maximum likelihood estimation. A Monte Carlo simulation is performed to model the uncertain VMT equation and demonstrate the range of possible VMT forecasts when these uncertainties are included. This simulation shows that the deterministic forecast does not adequately reflect all of the possible futures of VMT, which could lead policy makers to be unintentionally misinformed about the impacts of proposed policies. Finally, it is shown how the uncertain VMT equation could be used to help policy makers decide on the best policy to reduce transportation greenhouse gas emissions. A target is set for VMT for each of the projected years, and four decision-making techniques are used to calculate the fuel tax required to reduce VMT to this specified goal. These methods could guide policy makers to better-informed energy policy decisions, but they are only possible if some amount of uncertainty is incorporated into the model.
CHAPTER 1: INTRODUCTION

1.1 Background

Energy forecasts are commonly used in the United States to predict energy use up to 25 years in the future. They provide the foundation for the energy industry, and play a vital role in the formation of energy and environmental policy. Energy forecasts inspire research in energy production and conversion, warn of environmental impacts such as climate change and air pollution, and suggest the need for energy and environmental policy.

The Energy Information Administration (EIA) of the US Department of Energy has been publishing energy forecasts in their Annual Energy Outlook (AEO) for nearly thirty years (EIA, 2010a). In 1982, the EIA started using the Intermediate Future Forecasting System (IFFS) to make energy predictions. The National Energy Modeling System (NEMS) replaced the IFFS model in 1994 (EIA, 2010b). NEMS is a computer based energy-economy modeling system that forecasts the production, consumption, conversion, and prices of energy in the United States (EIA, 2009). It is designed to model the complex interactions of supply and demand in US energy markets (Gabriel, Kydes, & Whitman, 2001). NEMS is used by the EIA to gain insight on the impact of energy policies and different economic assumptions.

NEMS is organized into a modular structure due to the diversity of energy markets. The model consists of four end-use demand modules, four supply modules, two conversion modules, one economic module, one international module, and a module that finds the market equilibrium across all the NEMS modules (EIA, 2009). The modularity of NEMS
allows for each sector of the US energy system to use the procedures and techniques best suited for that particular module. Each module is also divided geographically. NEMS is a regional model because supply, demand, and other characteristics of the energy system vary widely across the United States. Projections in the AEO 2010 span from the present to the year 2035. The EIA believes technology, demographics, and economic conditions are understood well enough to sufficiently represent the US energy market in this time period.

1.2 Motivation

The EIA’s projections have a significant influence on energy policy, making it important to analyze the accuracy of NEMS. Evaluating the performance of previous energy projections can provide insight into the possible errors connected to current projections. Error analyses also direct researchers toward the cause of such errors, which could lead to improvements in the model. Studies agree that NEMS has repeatedly underestimated total energy consumption (Fischer, Herrnstadt, & Morgenstern, 2009; O’Neill & Desai, 2005; Winebrake & Sakva, 2006). Fischer, Herrnstadt, and Morgenstern (2009) and Winebrake and Sakva (2006) argue that it is misleading to judge the accuracy of energy projections by the error in total energy demand, and the errors need to be broken down to the different sectors modeled by NEMS. This approach shows that low errors for the total energy consumption are hiding much higher errors in the individual sectors, which tend to cancel each other out when combined. In addition, O’Neill & Desai (2005) find no evidence that suggests the accuracy of these forecasts has improved since the EIA first began making energy projections.
The limitations of energy forecasts need to be communicated to the policy makers who rely heavily on their results to make informed policy decisions. The EIA attempts to address this by forecasting five different scenarios: a reference case, high economic growth case, low economic growth case, high oil price case, and low oil price case (EIA, 2009). However, these five cases do not account for the myriad of uncertainties that lie within the US energy system. In their research on long-term policy analysis Lempert, Popper, and Bankes (2003) suggest hundreds to millions of scenarios are needed to span the range of plausible outcomes in order to find the most robust policy strategy. This type of comprehensive scenario analysis is not a practical method for a model as complex as NEMS.

Forecasts such as NEMS depend significantly on a variety of economic assumptions, future oil prices, consumer preferences and behaviors, new technologies yet to be developed, and numerous other inputs which are impossible to predict and inherently uncertain. If NEMS inputs are uncertain, then NEMS forecasts must be uncertain as well. Baghelai, Moumen, Cohen, Kydes, and Harris (1995a; 1995b) discuss techniques for characterizing the uncertainty in NEMS, though very little has been done to put these methods to practice. Without explicitly including uncertainties in forecasts, policy makers can be unintentionally misinformed about the impacts of proposed policies. It is important to understand that no forecasting model, no matter how complex, can exactly predict the future of the US energy system. However, including uncertainty in NEMS forecasts would at least allow policy makers to develop better-informed decisions regarding energy policy.
1.3 Objective

It is no secret that the world is going through a climate change, largely due to increased emissions of greenhouse gases (GHG). Transportation sources contribute nearly a third of the total US GHG emissions, and are responsible for half of the net increase in total US emissions since 1990. Transportation is also the largest source of carbon dioxide (CO$_2$) emissions, which is the most notorious greenhouse gas (EPA, 2010). Reducing CO$_2$ emissions from the transportation industry is a vital part of United States’ efforts to mitigate the effect of greenhouse gases on global climate change.

Since transportation is the fastest growing source of GHG emissions, it also presents the potential to be a leading source of GHG reductions. Several studies have been done to determine the best policy strategies to reduce GHG emissions in the transportation sector (DeCicco & Mark, 1998; Greene & Plotkin, 2001; McCollum & Yang, 2009; Morrow, Gallagher, Collantes, & Lee, 2010). Based on an analysis using three scenarios of future transportation energy use, Greene and Plotkin (2001) conclude GHG emissions would continue to rise without dramatic increases in fuel prices. Although increasing the Corporate Average Fuel Economy standards and using low carbon fuels slow this growth, these strategies require some time to affect emissions due to the slow turnover of the vehicle fleet and the slow rate of new technology development. According to McCollum and Yang (2009), a combination of these policy scenarios are needed to make significant cuts to transportation emissions. However, slowing the growth in vehicle miles traveled (VMT) is the most effective way to decrease GHG emissions, and increasing the cost of driving with a fuel tax is the only strategy that could significantly reduce VMT (Morrow et al., 2010).
The EIA includes projections of VMT in the Transportation Sector Module of NEMS. While the main purpose of the Transportation Module is to project transportation energy demand by fuel type, it also estimates vehicle stock, energy efficiency of vehicles, deployment of new transportation technologies, and vehicle miles traveled (EIA, 2010c). The module is divided into four modules representing different modes of travel: light-duty vehicle, air travel, freight transport, and miscellaneous energy demand. Within the Light-Duty Vehicle Module is the VMT Submodule, which generates a projection of the demand for personal travel.

The purpose of this research is to incorporate uncertainty in the VMT model of NEMS in order to help policy makers formulate better-informed decisions regarding transportation energy policy. This starts by deriving the model and estimating its parameters and their corresponding standard errors. Three estimation techniques are applied in order to find the most appropriate estimation method. A Monte Carlo simulation is performed to demonstrate the variety of VMT projections possible when uncertainty is included in the model. Four methods are then used to determine a fuel tax that would increase the cost of driving, thus decreasing vehicle miles traveled and CO₂ emissions.
CHAPTER 2: ESTIMATING THE VMT MODEL

2.1 Introduction

The first step in developing an uncertain VMT model is deriving the model and estimating its parameters. The goal is to incorporate uncertainty in the existing VMT model without changing the structure of the model itself. Therefore, the uncertain model will look the same as the VMT model currently used by NEMS, with the addition of an error term.

Parameter estimation is based on historical data for each of the inputs. The EIA does not explicitly state which historical data was used when estimating the parameters for their model. The historical data used in this parameter estimation was compiled from various tables published by the Federal Highway Administration (FHWA, 2010) and the Bureau of Economic Analysis (BEA, 2009). The most accurate, reliable, and comprehensive historical data available is used here. However, this data is likely different from the data used by the EIA, which results in different parameter estimates. The historical data used for the inputs is given in Table 1.

Greene (2008) explains several methods that can be used to estimate the parameters of a time series model. All of the estimation methods covered in this chapter are programmed using MATLAB. LeSage (1999) describes how MATLAB can be used to implement various econometric estimation techniques. In order to find the most appropriate estimation method, three different techniques are applied to the VMT model: Cochrane-Orcutt, maximum likelihood, and Prais-Winsten. This chapter describes each of these procedures and compares their results to discover the preferred method.
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</table>

Table 1: Historical data for the inputs of the VMT equation.
2.2 The VMT Model

The factors that affect vehicle miles traveled per licensed driver in year \( y \) \( (M_y) \) are the VMT from the previous year \( (M_{y-1}) \), per capita disposable personal income \( (I_y) \), and the fuel cost of driving one mile \( (C_y) \). The natural logarithm of each of these inputs is taken before inserting them into the model. To condense the notation, let the lowercase inputs represent the natural logarithm of the actual inputs.

\[
m_y = \log(M_y) \\
i_y = \log(I_y) \\
c_y = \log(C_y)
\]  

These inputs, along with their corresponding unknown parameters \( (\beta) \), create the time series model given below.

\[
m_y = \beta_0 + \beta_mm_{y-1} + \beta_i i_y + \beta_c c_y + \epsilon_y
\]  

The EIA assumes this is a first order autoregressive, or AR(1), model. More complicated processes are sometimes difficult to analyze and unnecessarily complex for this research. The model should stay simple enough for policy makers to understand. The AR(1) model is a convenient yet reasonable model to start with when the actual time series model is unknown (Greene, 2008). An AR(1) model is defined by its serially correlated errors,

\[
\epsilon_y = \rho \epsilon_{y-1} + N_y \\
-1 < \rho < 1
\]  

with the assumption that \( N_y \sim \text{Normal}(0, \sigma^2) \).
The autocorrelation coefficient, \( \rho \), describes the dependence of VMT on its own past. The estimation techniques used in this chapter cannot be applied when this serial correlation is present. To solve this problem, the model is transformed by lagging (2.2) by one year, multiplying by \( \rho \),

\[
\rho m_{y-1} = \rho \beta_0 + \rho \beta_M m_{y-2} + \rho \beta_i i_{y-1} + \rho \beta_C c_{y-1} + \rho \varepsilon_{y-1} \tag{2.4}
\]

and taking the difference between (2.2) and (2.4).

\[
m_y - \rho m_{y-1} = \beta_0 (1 - \rho) + \beta_M (m_{y-1} - \rho m_{y-2}) + \beta_i (i_y - \rho i_{y-1}) + \beta_C (c_y - \rho c_{y-1}) + N_y \tag{2.5}
\]

The model is shortened by combining the inputs, lagged inputs, and beta coefficients into their respective matrices.

\[
x_y = \begin{bmatrix} 1 & m_{y-1} & i_y & c_y \end{bmatrix}
\]

\[
x_{y-1} = \begin{bmatrix} 1 & m_{y-2} & i_{y-1} & c_{y-1} \end{bmatrix}
\]

\[
\beta = \begin{bmatrix} \beta_0 \\ \beta_M \\ \beta_i \\ \beta_C \end{bmatrix}
\]

Expressing (2.5) in terms of (2.6) gives the final VMT equation.

\[
m_y = \rho m_{y-1} + (x_y - \rho x_{y-1}) \beta + N_y \tag{2.7}
\]
2.3 Cochrane-Orcutt

The Cochrane-Orcutt procedure (Cochrane & Orcutt, 1949) has been used to calculate VMT since NEMS was first ran in 1994. The iterative process begins by choosing a starting value for $\rho$ such as $\rho = 0$. This value for $\rho$ is used to calculate the starred variables below.

\[
\begin{align*}
    m_y^* &= m_y - \rho m_{y-1} \\
    x_y^* &= x_y - \rho x_{y-1}
\end{align*}
\]  

Equation (2.7) is rewritten in terms of (2.8), and the normal error term is dropped.

\[m_y^* = x_y^* \beta\]  

An ordinary least squares regression is ran on (2.9) to get an estimate for $\beta$. Then (2.2) and the estimated $\beta$ are used to calculate the errors and lagged errors.

\[
\begin{align*}
    \varepsilon_y &= m_y - x_y \beta \\
    \varepsilon_{y-1} &= m_{y-1} - x_{y-1} \beta
\end{align*}
\]  

A second ordinary least squares regression is done to estimate the correlation coefficient.

\[\varepsilon_y = \rho \varepsilon_{y-1}\]  

This completes the first iteration, and the new estimate for $\rho$ is used in (2.8) to start the second iteration. The procedure continues until two successive estimates for $\rho$ differ by less than some predetermined value. The final $\rho$ is then used calculate the final estimate for $\beta$.
2.4 Maximum Likelihood

Next, maximum likelihood estimation is used to estimate the parameters of the model.

As with all maximum likelihood estimation, this begins with calculating the likelihood function.

\[ L = f(m_1, m_2, \ldots, m_r) = f(m_1)f(m_2) \cdots f(m_r) = \prod_{y=1}^{r} f(m_y) \]  \hspace{1cm} (2.12)

Using the fact that \( N_y \sim \text{Normal}(0, \sigma^2) \) the distribution of \( m_y \) is calculated to be

\[ f(m_y) = \left( \frac{1}{\sqrt{2\pi\sigma^2}} \right) e^{-\frac{(F_y)^2}{2\sigma^2}} \]  \hspace{1cm} (2.13)

where

\[ F_y = F(\rho, \beta) = (m_y - \rho m_{y-1}) - (x_y - \rho x_{y-1}) \beta \]  \hspace{1cm} (2.14)

When attempting to maximize the likelihood function it is often computationally easier to minimize the negative log-likelihood function. Substituting (2.13) into (2.12) and taking the negative logarithm yields

\[ -\log(L) = \sum_{y=1}^{r} -\log[f(m_y)] = \left( \frac{Y}{2} \right) \log(2\pi) + Y \log(\sigma) + \left( \frac{1}{2\sigma^2} \right) \sum_{y=1}^{r} (F_y)^2 \]  \hspace{1cm} (2.15)

The first derivative of (2.15) with respect to \( \sigma \) is

\[ \frac{\partial \left[ -\log(L) \right]}{\partial \sigma} = \frac{1}{\sigma} \left[ Y - \left( \frac{1}{\sigma^2} \right) \sum_{y=1}^{r} (F_y)^2 \right] \]  \hspace{1cm} (2.16)

Since \( \sigma \in (0, \infty) \), the \( 1/\sigma \) factor in front can be dropped when solving \( \frac{\partial \left[ -\log(L) \right]}{\partial \sigma} = 0 \).
\[
\frac{\partial \left[ -\log(L) \right]}{\partial \sigma} = 0 \quad \Leftrightarrow \quad \sigma = \sqrt{\frac{1}{Y} \sum_{y=1}^{Y} (F_y)^2}
\] (2.17)

The partial derivatives of (2.15) with respect to the rest of the parameters are given below.

\[
\begin{align*}
\frac{\partial \left[ -\log(L) \right]}{\partial \rho} &= \left( \frac{1}{\sigma^2} \right) \sum_{y=1}^{Y} \left[ (F_y) (x_{y-1} \beta - m_{y-1}) \right] \\
\frac{\partial \left[ -\log(L) \right]}{\partial \beta_0} &= \left( \frac{1}{\sigma^2} \right) \sum_{y=1}^{Y} \left[ (F_y) (\rho - 1) \right] \\
\frac{\partial \left[ -\log(L) \right]}{\partial \beta_m} &= \left( \frac{1}{\sigma^2} \right) \sum_{y=1}^{Y} \left[ (F_y) (\rho m_{y-2} - m_{y-1}) \right] \\
\frac{\partial \left[ -\log(L) \right]}{\partial \beta_t} &= \left( \frac{1}{\sigma^2} \right) \sum_{y=1}^{Y} \left[ (F_y) (\rho i_{y-1} - i_y) \right] \\
\frac{\partial \left[ -\log(L) \right]}{\partial \beta_c} &= \left( \frac{1}{\sigma^2} \right) \sum_{y=1}^{Y} \left[ (F_y) (\rho c_{y-1} - c_y) \right]
\end{align*}
\] (2.18)

Just as before, the \(1/\sigma^2\) factor cannot force the partial derivatives in (2.18) to equal zero.

Dropping this term from (2.18) gives the conditions which must be satisfied in order for the negative log-likelihood function to be minimized.

\[
\begin{align*}
\frac{\partial \left[ -\log(L) \right]}{\partial \rho} &= 0 \quad \Leftrightarrow \quad \sum_{y=1}^{Y} \left[ (F_y) (x_{y-1} \beta - m_{y-1}) \right] = 0 \\
\frac{\partial \left[ -\log(L) \right]}{\partial \beta_0} &= 0 \quad \Leftrightarrow \quad \sum_{y=1}^{Y} \left[ (F_y) (\rho - 1) \right] = 0 \\
\frac{\partial \left[ -\log(L) \right]}{\partial \beta_m} &= 0 \quad \Leftrightarrow \quad \sum_{y=1}^{Y} \left[ (F_y) (\rho m_{y-2} - m_{y-1}) \right] = 0 \\
\frac{\partial \left[ -\log(L) \right]}{\partial \beta_t} &= 0 \quad \Leftrightarrow \quad \sum_{y=1}^{Y} \left[ (F_y) (\rho i_{y-1} - i_y) \right] = 0 \\
\frac{\partial \left[ -\log(L) \right]}{\partial \beta_c} &= 0 \quad \Leftrightarrow \quad \sum_{y=1}^{Y} \left[ (F_y) (\rho c_{y-1} - c_y) \right] = 0
\end{align*}
\] (2.19)

Finding the parameters that satisfy (2.19) simplifies to minimizing the following function.
The MATLAB function “lsqnonlin”, which solves nonlinear least squares data-fitting problems, is used to minimize (2.20) with respect to $\rho$ and $\beta$. These estimates are then substituted into (2.17) to get an estimate for $\sigma$.

An advantage to using maximum likelihood estimation is that additional calculations can be done to estimate the standard errors of the parameters. These standard errors are needed to model the uncertainty of VMT, which is done in Chapter 3. The Cramér-Rao Lower Bound is used to approximate the standard errors. The Cramér-Rao Lower Bound states that if $\theta$ is a vector of parameters, then the inverse of the Fisher information matrix is a lower bound on the variance of $\theta$.

\[
[I(\theta)]^{-1} = \left(-E \left[ \frac{\partial^2 \ln L(\theta)}{\partial \theta \partial \theta^T} \right] \right)^{-1} \leq \text{Var}[\theta] \tag{2.21}
\]

The variances of the estimated parameters are provided in the diagonal of the above matrix.

### 2.5 Prais-Winsten

The maximum likelihood approach to estimating the parameters of a time series model is sometimes criticized because it neglects to include the first year of known historical data. Prais and Winsten (1954) offer an alternative procedure that addresses this problem. Recall the VMT model derived in Section 2.2.

\[
m_y = \rho m_{y-1} + (x_y - \rho x_{y-1}) \beta + N_y
\]
The Prais-Winsten procedure uses a different model for the first year of data, thus one more year of the historical data can be utilized. The model for the first year of data is explained in Appendix A.

\[
m_i = x_i \beta + \frac{N_i}{\sqrt{1 - \rho^2}}
\]

\[
m_y = \rho m_{y-1} + (x_y - \rho x_{y-1}) \beta + N_y \quad y = 2, 3, ..., Y
\]  

Estimating the parameters of this model is more complicated than the maximum likelihood procedure due to the transformed model for the first year, but it essentially requires the same steps. The process starts by calculating the distribution of \( m_y \).

\[
f(m_i) = \sqrt{\frac{1 - \rho^2}{2\pi\sigma^2}} e^{-\frac{(1-\rho^2)(m_i - x_i \beta)^2}{2\sigma^2}}
\]

\[
f(m_y) = \frac{1}{\sqrt{2\pi\sigma^2}} e^{-\frac{(m_i)^2}{2\sigma^2}} \quad y = 2, 3, ..., Y
\]

These distributions are used to calculate the negative log-likelihood function.

\[
-\log(L) = -\log\left[ f(m_i) \right] - \sum_{y=2}^{Y} \log\left[ f(m_y) \right]
\]

\[
= \left( \frac{Y}{2} \right) \log(2\pi) + Y \log(\sigma) - \left( \frac{1}{2} \right) \log\left(1 - \rho^2\right)
\]

\[
+ \left( \frac{1}{2\sigma^2} \right) (1 - \rho^2)(m_i - x_i \beta)^2
\]

\[
+ \left( \frac{1}{2\sigma^2} \right) \sum_{y=2}^{Y} \left( F_y \right)^2
\]

Again, the negative log-likelihood function is minimized by setting each of its partial derivatives equal to zero and simplifying.
\[
\frac{\partial [-\log(L)]}{\partial \sigma} = 0 \iff \sigma = \sqrt{(1-\rho^2)(m_i - x_i \beta)^2 + \sum_{y=2}^{Y} (F_y)^2} / Y 
\] (2.25)

\[
\frac{\partial [-\log(L)]}{\partial \rho} = 0 \iff \frac{\rho \sigma^2}{1-\rho^2} - \rho (m_i - x_i \beta)^2 + \sum_{y=2}^{Y} (F_y)(x_{y-1} \beta - m_{y-1}) = 0
\]

\[
\frac{\partial [-\log(L)]}{\partial \beta_0} = 0 \iff (1+\rho^2)(m_i - x_i \beta) + \sum_{y=2}^{Y} (F_y)(\rho - 1) = 0
\]

\[
\frac{\partial [-\log(L)]}{\partial \beta_{st}} = 0 \iff m_i (1+\rho^2)(m_i - x_i \beta) + \sum_{y=2}^{Y} (F_y)(\rho m_{y-2} - m_{y-1}) = 0 
\] (2.26)

\[
\frac{\partial [-\log(L)]}{\partial \beta_i} = 0 \iff i_i (1+\rho^2)(m_i - x_i \beta) + \sum_{y=2}^{Y} (F_y)(\rho y_{i-1} - y_i) = 0
\]

\[
\frac{\partial [-\log(L)]}{\partial \beta_c} = 0 \iff c_i (1+\rho^2)(m_i - x_i \beta) + \sum_{y=2}^{Y} (F_y)(\rho c_{y-1} - c_y) = 0
\]

Solving the above system of equations does not simplify to the minimization of a less complicated equation, as is the case with the maximum likelihood method. The MATLAB function “fsolve” is used to simultaneously solve the system of equations in (2.26) for \( \rho \) and \( \beta \). These estimates are then inserted into (2.25) to estimate \( \sigma \). Again, (2.21) is used to approximate the standard errors of each of the parameters.
2.6 Results

<table>
<thead>
<tr>
<th>Parameter Estimates (standard errors)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\rho$</td>
</tr>
<tr>
<td>Cochrane-Orcutt</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Likelihood</td>
</tr>
<tr>
<td>Prais-Winsten</td>
</tr>
<tr>
<td>Likelihood</td>
</tr>
</tbody>
</table>

Table 2: Parameter estimates and standard errors from three estimation techniques.

The results from the previous sections are compiled in Table 2. Unlike Cochrane-Orcutt, the maximum likelihood and Prais-Winsten procedures both produce an estimate for $\sigma$. Furthermore, the Cramér-Rao Lower Bound can be used to estimate the standard errors of maximum likelihood and Prais-Winsten parameter estimates. The estimate for $\sigma$ plays an important role in Chapter 4, and the standard errors are necessary to model the uncertainty in the parameters in Chapter 3. Bootstrapping methods could be used to estimate the standard errors of the Cochrane-Orcutt parameters, but these estimates would be less accurate and require more work. For these reasons, Cochrane-Orcutt is not a suitable parameter estimation method for this research.

The maximum likelihood and Prais-Winsten methods both provide accurate estimates for the parameters and standard errors. Prais-Winsten requires the same procedure as maximum likelihood, with the addition of a different model for the first year of known historical data. The parameters from both estimation methods were used in the VMT model to show how the model compares to the historic VMT. From these VMT estimates, the sum
of the squared residuals for maximum likelihood and Prais-Winsten parameters were calculated to be 1.70 and 2.36 respectively. This suggests the parameters from maximum likelihood estimation produce VMT estimates closer to the historic VMT than those of Prais-Winsten estimation. It seems as though Prais-Winsten makes an assumption to fix a negligible problem, and only makes the procedure more complex and less accurate. Therefore, maximum likelihood is the best estimation method for the VMT equation.
CHAPTER 3: MODELING THE UNCERTAINTY IN VMT

3.1 Introduction

The VMT equation is currently treated as a deterministic equation in NEMS. Each of its parameters and inputs are considered known values for every year of the projection. Therefore, each time the equation is run it will produce exactly the same output. In reality, the only inputs that are known for certain are the VMT, income, and cost of driving from the years before the projection is made. The rest of the inputs and parameters are uncertain and have a probability distribution associated with them. The maximum likelihood parameter estimates and their standard errors from Chapter 2 provide the necessary statistics to add uncertainty to the parameters and the error term \( (N_x) \) of the VMT model.

In this chapter a Monte Carlo simulation is performed to model the uncertain VMT equation and demonstrate the range of VMT forecasts possible when these uncertainties are no longer ignored. In a Monte Carlo simulation the uncertain inputs are randomly drawn from their respective probability distributions, and then inserted into the model to calculate an output. This is repeated hundreds or even thousands of times to produce a range of possible outcomes (Gentle, 2002).

Forecasts of income and cost of driving are needed to forecast VMT. Projections from the AEO 2010 are used for income, and the values for the cost of driving are calculated from AEO 2010 projections of fuel price and fuel economy (EIA, 2010a). This data is given in Table 3.
<table>
<thead>
<tr>
<th>year</th>
<th>vehicle miles traveled per licensed driver (thousand miles)</th>
<th>per capita disposable personal income (2000 dollars)</th>
<th>fuel cost of driving 1 mile (2000 cents/mile)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>12.856</td>
<td>36,477.45</td>
<td>8.76</td>
</tr>
<tr>
<td>2009</td>
<td>13.011</td>
<td>36,827.67</td>
<td>6.23</td>
</tr>
<tr>
<td>2010</td>
<td>13.024</td>
<td>36,323.47</td>
<td>6.65</td>
</tr>
<tr>
<td>2011</td>
<td>13.040</td>
<td>36,572.77</td>
<td>6.70</td>
</tr>
<tr>
<td>2012</td>
<td>13.050</td>
<td>37,123.80</td>
<td>7.00</td>
</tr>
<tr>
<td>2013</td>
<td>13.033</td>
<td>37,430.14</td>
<td>7.53</td>
</tr>
<tr>
<td>2014</td>
<td>13.034</td>
<td>38,271.42</td>
<td>7.72</td>
</tr>
<tr>
<td>2015</td>
<td>13.060</td>
<td>39,197.26</td>
<td>7.73</td>
</tr>
<tr>
<td>2016</td>
<td>13.104</td>
<td>40,085.74</td>
<td>7.78</td>
</tr>
<tr>
<td>2017</td>
<td>13.236</td>
<td>40,980.68</td>
<td>7.78</td>
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<tr>
<td>2018</td>
<td>13.299</td>
<td>41,945.42</td>
<td>7.78</td>
</tr>
<tr>
<td>2019</td>
<td>13.456</td>
<td>43,038.44</td>
<td>7.73</td>
</tr>
<tr>
<td>2020</td>
<td>13.619</td>
<td>44,267.97</td>
<td>7.70</td>
</tr>
<tr>
<td>2021</td>
<td>13.787</td>
<td>45,393.19</td>
<td>7.62</td>
</tr>
<tr>
<td>2022</td>
<td>13.953</td>
<td>46,403.06</td>
<td>7.59</td>
</tr>
<tr>
<td>2023</td>
<td>14.118</td>
<td>47,360.42</td>
<td>7.53</td>
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<tr>
<td>2024</td>
<td>14.284</td>
<td>48,315.73</td>
<td>7.45</td>
</tr>
<tr>
<td>2025</td>
<td>14.446</td>
<td>49,269.13</td>
<td>7.42</td>
</tr>
<tr>
<td>2026</td>
<td>14.605</td>
<td>50,227.85</td>
<td>7.39</td>
</tr>
<tr>
<td>2027</td>
<td>14.762</td>
<td>51,203.41</td>
<td>7.36</td>
</tr>
<tr>
<td>2028</td>
<td>14.834</td>
<td>52,172.23</td>
<td>7.38</td>
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<tr>
<td>2029</td>
<td>14.915</td>
<td>53,120.66</td>
<td>7.38</td>
</tr>
<tr>
<td>2030</td>
<td>15.089</td>
<td>54,065.87</td>
<td>7.32</td>
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<tr>
<td>2031</td>
<td>15.170</td>
<td>54,910.88</td>
<td>7.33</td>
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<td>2032</td>
<td>15.256</td>
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<td>2033</td>
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<td>56,635.37</td>
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<tr>
<td>2034</td>
<td>15.506</td>
<td>57,543.41</td>
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<tr>
<td>2035</td>
<td>15.587</td>
<td>58,473.52</td>
<td>7.41</td>
</tr>
</tbody>
</table>

Table 3: Projections for the VMT inputs used in the Mont Carlo simulation.

### 3.2 Monte Carlo Simulation of VMT Trajectories

Before beginning the Monte Carlo simulation each uncertain component of the model is assigned an appropriate probability distribution. By definition, the error is a normally distributed random variable with a mean of zero. Its standard deviation is $\sigma$, which is estimated in Chapter 2. The maximum likelihood estimation in Chapter 2 also provides the
mean and standard deviations of the remaining parameters. It is tempting to designate each of the parameters with normal distributions, but they all have restrictions that need to be addressed. In Section 2.2 $\rho$ is defined to be between -1 and 1 for an AR(1) model. A normal distribution is used for $\rho$ while ensuring the random numbers do not exceed these limits, which is extremely rare in this case. The rest of the parameters have restrictions on their sign. An increase in income would cause people to drive more, so $\beta_I$ must be positive. An increase in the cost of driving would cause people to drive less, so $\beta_C$ must be negative. The same logic shows that $\beta_M$ must be positive and $\beta_0$ must be negative. A log normal distribution is used to generate random numbers for each of these parameters. The log normal distribution produces positive random variables with the desired mean and standard deviation. The opposite of the log normal random variables is used for $\beta_C$ and $\beta_0$.

In the Monte Carlo simulation, random numbers are generated for the parameters and error from their respective distributions. In each projection only one random variable is drawn for every parameter. However, 26 normal errors are generated because a new independent error is needed for each year of the projection. These numbers are used in (2.5) to calculate one VMT trajectory. New random variables are then drawn and the process is repeated.

### 3.3 Results

Figure 1 shows 100 VMT trajectories that were plotted in MATLAB from a Monte Carlo simulation. The black lines indicate a 90% trajectory interval. That is, 90% of the
projections for each year fall within the black lines. Ninety-nine percent confidence intervals were also added to the upper and lower limits of the trajectory interval.

![AEO 2010 VMT Model](image)

**Figure 1:** VMT trajectories with uncertainty in the parameters and error term.

Figure 1 illustrates the variety of possible VMT forecasts when uncertainty is added to the model. It is clear that the EIA’s deterministic forecast does not adequately reflect all of the possible futures of VMT. This range of projections needs to be communicated to policymakers in order to help them make informed policy decisions.

The mean and median of the 100 trajectories are also plotted with 99% confidence intervals in Figure 2 and Figure 3. The mean and median plots are nearly equal, and have very narrow 99% confidence intervals. These are both signs that the mean and median estimates are very reliable. The thin confidence interval is especially impressive because it was constructed from only 100 trajectories, which is a relatively small sample for a Monte Carlo simulation.
The Monte Carlo methods are applied two more times in order to find the main source of uncertainty in the VMT model. First, the error term is dropped from the model leaving only the uncertainty in the parameters. These trajectories are shown in Figure 4. Figure 5 provides the VMT trajectories when the parameters are held constant at their mean values, but the error term remains in the model.
Figure 4: VMT trajectories with uncertainty only in the parameters.

Figure 5: VMT trajectories with uncertainty only in the error term.

Both models span approximately the same range of outcomes, as their 90% trajectory intervals are very similar. However, Figure 5 clearly shows more variability within the trajectories. This is because a new normal random variable is drawn for the error term each year of the trajectory, while only one set of parameters is used for every year of a trajectory.
After comparing Figure 1 and Figure 5 it seems as though the error term alone accounts for nearly all the uncertainty in the model. Simply adding a normal error term to the model, while keeping the rest of the parameters and inputs deterministic, would include enough uncertainty to guide policy makers in their decision-making.
CHAPTER 4: DECISION-MAKING

4.1 Introduction

This chapter shows how the uncertain VMT equation can be used to help policy makers decide on the best policy to reduce transportation GHG emissions. Increasing the cost of driving with a fuel tax is the only way to significantly reduce VMT, which must be done to decrease GHG emissions. Including a fuel tax in the model allows policy makers to have some control over the VMT projections. A target is set for VMT for each of the projected years, and a fuel tax is calculated to reduce VMT to this specified target.

NEMS currently projects VMT per licensed driver to grow by 20% between 2010 and 2035. The driving population is expected to rise by 27% over the same time span. This results in a 52% increase in total VMT from 2010 to 2035, and a 1.7% increase in total VMT each year (EIA, 2010a). The target is set to allow for a 1.2% increase in total VMT each year. This small change could lead to half a billion less miles driven by the US population in the year 2035 alone. The following sections explain four decision-making techniques for calculating the fuel tax required to keep VMT below this goal.

Once again, forecasts from the AEO 2010 are used for the inputs of this model (EIA, 2010a). The projections for VMT and income are the same as those used in Chapter 3, but more details are needed for the cost of driving in this chapter. The projections used are given in Table 4.
<table>
<thead>
<tr>
<th>year</th>
<th>vehicle miles traveled per licensed driver (thousand miles)</th>
<th>per capita disposable personal income (2000 dollars)</th>
<th>fuel price (2000 cents/gal)</th>
<th>fuel economy (miles/gal)</th>
<th>fuel cost of driving 1 mile (2000 cents/mile)</th>
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<tbody>
<tr>
<td>2008</td>
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<td>200.76</td>
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<td>7.38</td>
</tr>
<tr>
<td>2029</td>
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<td>206.46</td>
<td>27.97</td>
<td>7.38</td>
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<tr>
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<td>28.60</td>
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<tr>
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<tr>
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<td>7.34</td>
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</tr>
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<td>58,473.52</td>
<td>220.24</td>
<td>29.70</td>
<td>7.41</td>
</tr>
</tbody>
</table>

Table 4: Projections for the VMT inputs used in the decision-making analysis.

### 4.2 The VMT Model

The same VMT model derived in Section 2.2 is used here; however, it is transformed into a version more suitable for this decision-making work. A fuel tax is added to this transformed model as part of the cost of driving. So, the cost of driving 1 mile is given by:

$$C_y = \frac{P_y + T_y}{E_y}$$  \hspace{1cm} (4.1)
where $P_y$ is the price of one gallon of fuel, $T_y$ is the tax per gallon of fuel, and $E_y$ is the average fuel economy.

Both the deterministic and probabilistic VMT models are utilized. Let $M_y$ be the deterministic model and let $\tilde{M}_y$ be the probabilistic model. The two models are derived in Appendix B and given below.

\[
M_y(T_y) = e^{\beta_y (1 - \rho)} \left( \frac{M_y \beta_{y+\rho}}{M_{y-2}} \right) \left( \frac{I_y}{I_{y-1}} \right)^{\beta_i} \left( \frac{P_y + T_y}{E_y C_y} \right)^{\beta_c} 
\]

(4.2)

\[
\tilde{M}_y(T_y) = e^{\beta_y (1 - \rho)} \left( \frac{\tilde{M}_{y-1}}{M_{y-2}} \left( \frac{I_{y-1}}{I_{y-2}} \right)^{\beta_i} \left( \frac{P_y + T_y}{E_y C_y} \right)^{\beta_c} \right) e^{N_y}
\]

(4.3)

The parameters are held constant at their mean values in these models, so (4.3) includes three uncertain variables: $\tilde{M}_{y-1}$, $\tilde{M}_{y-2}$, and $N_y$. These uncertainties need to be combined into one error term for each of the decision-making techniques, so the following probabilistic VMT model is used instead of (4.3).

\[
\tilde{M}_y(T_y) = e^{\beta_y (1 - \rho)} \left( \frac{\tilde{M}_{y-1}}{M_{y-2}} \left( \frac{I_{y-1}}{I_{y-2}} \right)^{\beta_i} \left( \frac{P_y + T_y}{E_y C_y} \right)^{\beta_c} \right) e^{N_y^*}
\]

(4.4)

The new error term, $N_y^*$, is a weighted summation of all the previous normal errors. The derivation of (4.4) and $N_y^*$ is given in Appendix C.
4.3 Deterministic

The fuel tax is first calculated from the deterministic VMT model. For deterministic decision-making the tax must reduce the deterministic VMT model to a specific goal \( G_y \).

That is, find \( T_y \) such that \( M_y(T_y) \leq G_y \).

\[
M_y(T_y) = e^{\beta_b (1-\rho)} \left( \frac{M_{y-1}^{\beta_u+\rho}}{M_{y-2}^{\beta_u+\rho}} \right) \left( \frac{I_y^p}{I_{y-1}^p} \right)^{\beta_i} \left( \frac{P_y + T_y}{E_y C_y^p} \right)^{\beta_c} \leq G_y \quad (4.5)
\]

Computing the tax level simply involves solving (4.5) for \( T_y \). To avoid getting negative tax values, the tax is set to zero if VMT meets the goal without any tax at all. If \( M_y(0) \leq G_y \), then \( T_y = 0 \). Otherwise,

\[
T_y = E_y C_y^p \left[ \frac{G_y}{e^{\beta_b (1-\rho)} \left( \frac{M_{y-1}^{\beta_u+\rho}}{M_{y-2}^{\beta_u+\rho}} \right) \left( \frac{I_y^p}{I_{y-1}^p} \right)^{\beta_i} } - P_y \right]^{\beta_c} \quad (4.6)
\]

Then, (4.6) is substituted into (4.4) to get the uncertain VMT model for deterministic decision-making.

\[
\tilde{M}_y = e^{\beta_b (1-\rho)} \left( \frac{M_{y-1}^{\beta_u+\rho}}{M_{y-2}^{\beta_u+\rho}} \right) \left( \frac{I_y^p}{I_{y-1}^p} \right)^{\beta_i} \left( \frac{P_y + T_y}{E_y C_y^p} \right)^{\beta_c} e^{N_y} = (G_y)e^{N_y} \quad (4.7)
\]
4.4 Expected Value

Expected value decision-making consists of calculating the fuel tax necessary to force the expected value of the uncertain VMT model to meet the goal. So, find $T_y$ such that

$$E[\tilde{M}_y(T_y)] \leq G_y.$$  

$$E[\tilde{M}_y(T_y)] = e^{\beta_y(1-\rho)} \left( \frac{M_y}{M_{y-2}} \right)^{\beta_y} \left( \frac{I_y}{I_{y-1}} \right)^{\beta_y} \left( \frac{P_y + T_y}{E_y C_{y-1}^\rho} \right)^{\beta_c} E[e^{N_y}] \leq G_y \tag{4.8}$$

If $E[\tilde{M}_y(0)] \leq G_y$, then $T_y = 0$. Otherwise,

$$T_y = E_y C_{y-1}^\rho \left[ \frac{G_y}{e^{\beta_y(1-\rho)} \left( \frac{M_y}{M_{y-2}} \right)^{\beta_y} \left( \frac{I_y}{I_{y-1}} \right)^{\beta_y} \left( \frac{P_y + T_y}{E_y C_{y-1}^\rho} \right)^{\beta_c} E[e^{N_y}]} \right]^{\frac{1}{\beta_c}} - P_y \tag{4.9}$$

Again, substituting this into (4.4) yields the probabilistic VMT model.

$$\tilde{M}_y = e^{\beta_y(1-\rho)} \left( \frac{M_y^{\beta_y + \rho}}{M_{y-2}^{\beta_y}} \right)^{\beta_y} \left( \frac{I_y^{\beta_y}}{I_{y-1}^{\beta_y}} \right)^{\beta_y} \left( \frac{P_y + T_y}{E_y C_{y-1}^\rho} \right)^{\beta_c} e^{N_y} = \left( \frac{G_y}{E[e^{N_y}]} \right)^\rho e^{N_y} \tag{4.10}$$

4.5 Markovian

For Markovian decision-making the tax is found from the Markov chain $\tilde{M}_y$. A Markov chain is a discrete-time random process with the Markov property; the future state of the process depends only on the present state, and not on the past. Let $\tilde{M}_y$ be the Markov
process defined below where \( \tilde{M}_y \) is probabilistic, but considered a known variable in the equation for \( \tilde{M}_y \). Then find \( T_y \) such that \( \tilde{M}_y(T_y) \leq G_y \).

\[
\tilde{M}_y(T_y) = e^{\beta \cdot (1 - \rho)} \left( \frac{\tilde{M}^{\beta_{M} + \rho}}{\tilde{M}^{-1}} \right) \left( \frac{I_y^{\beta_i}}{I_{y-1}^{\rho}} \right) \left( \frac{P_y + T_y}{E_y C_{y-1}^{\rho \cdot \rho}} \right) \leq G_y \quad (4.11)
\]

If \( \tilde{M}_y(0) \leq G_y \), then \( T_y = 0 \). Otherwise,

\[
T_y = E_y C_{y-1}^{\rho} \left[ \frac{G_y}{e^{\beta \cdot (1 - \rho)} \left( \frac{\tilde{M}^{\beta_{M} + \rho}}{\tilde{M}^{-1}} \right) \left( \frac{I_y^{\beta_i}}{I_{y-1}^{\rho}} \right) \left( \frac{P_y + T_y}{E_y C_{y-1}^{\rho \cdot \rho}} \right) - P_y} \right]^{\frac{1}{\beta_i}} \quad (4.12)
\]

This time the tax is substituted into (4.3) to arrive at the uncertain VMT model.

\[
\tilde{M}_y = e^{\beta_i \cdot (1 - \rho)} \left( \frac{\tilde{M}^{\beta_{M} + \rho}}{\tilde{M}^{-1}} \right) \left( \frac{I_y^{\beta_i}}{I_{y-1}^{\rho}} \right) \left( \frac{P_y + T_y}{E_y C_{y-1}^{\rho \cdot \rho}} \right) e^{N_i} = \left( G_y \right)^{N_i} \quad (4.13)
\]

### 4.6 Probabilistic

In probabilistic decision-making the policy maker is allowed to choose \( \omega \), the certainty at which the target is met. Let \( \omega = 0.90 \). Then a tax is found that gives a 90% chance of meeting the goal. That is, find \( T_y \) such that \( P\left( \tilde{M}_y(T_y) \leq G_y \right) \geq \omega \).
\[ P(\tilde{M}_y(T_y) \leq G_y) = P\left( e^{\beta_0(1-\rho)} \left( \frac{M^{\beta_{H}+\rho}}{M_{y-1}} \right) \left( \frac{I_y}{I^\rho_{y-1}} \right)^{\beta_i} \left( \frac{P_y + T_y}{E_y C^\rho_{y-1}} \right)^{\beta_c} e^{N^*_y} \leq G_y \right) \]

\[ = P\left( N^*_y \leq \theta_y(T_y) \right) \]

\[ = \int_{-\infty}^{\theta_y(T_y)} f_{N^*_y}(n) \, dn \]

\[ = F_{N^*_y}\left( \theta_y(T_y) \right) \]

\[ = \frac{1}{2} \left[ 1 + \text{erf}\left( \frac{\theta_y(T_y)}{\sigma_y \sqrt{2}} \right) \right] \]

\[ \geq \omega \]

where

\[ \theta_y(T_y) = \log(G_y) - \log\left[ e^{\beta_0(1-\rho)} \left( \frac{M^{\beta_{H}+\rho}}{M_{y-1}} \right) \left( \frac{I_y}{I^\rho_{y-1}} \right)^{\beta_i} \left( \frac{P_y + T_y}{E_y C^\rho_{y-1}} \right)^{\beta_c} \right] \]  

(4.15)

Then, (4.14) is solved for the tax level. If \( P(\tilde{M}_y(0) \leq G_y) \geq \omega \), then \( T_y = 0 \). Otherwise,

\[ \frac{1}{2} \left[ 1 + \text{erf}\left( \frac{\theta_y(T_y)}{\sigma_y \sqrt{2}} \right) \right] = \omega \]

\[ \theta_y(T_y) = \left( \sigma_y \sqrt{2} \right) \text{erf}^{-1}(2\omega - 1) \]  

(4.16)

\[ T_y = E_y C^\rho_{y-1} \left[ \frac{G_y}{e^{\beta_0(1-\rho)} \left( \frac{M^{\beta_{H}+\rho}}{M_{y-1}} \right) \left( \frac{I_y}{I^\rho_{y-1}} \right)^{\beta_i} \exp\left[ (\sigma_y \sqrt{2}) \text{erf}^{-1}(2\omega - 1) \right]} \right]^{\gamma/\beta_c} - P_y \]

Substituting this tax into (4.4) gives the uncertain VMT model for probabilistic decision-making.
$$\tilde{M}_y = e^{\beta e(1-\rho)} \left( \frac{M_{y-1}^{\beta_I + \rho}}{I_{y-1}^{\beta_I}} \left( \frac{P_y + T_y}{E, C_{y-1}^{\rho}} \right)^{\beta_I} e^{N_y} \right)$$

$$= \left( \frac{G_y}{\exp \left[ \left( \sigma_y \sqrt{2} \right) \text{erf}^{-1} \left( 2\omega - 1 \right) \right] } \right) e^{N_y} \tag{4.17}$$

4.7 Results

Several plots are made to compare the results from each of the decision-making techniques. In all of the figures in this section it appears as though there is no line for deterministic decision-making, but this is not the case. In each figure the plots for deterministic and expected value decision-making are so nearly identical that the expected value plot covers up the deterministic plot. The deterministic and expected value equations for VMT and the tax level are identical except for one term, the mean of the log normal random variable $e^{N_y}$. Since $E \left[ e^{N_y} \right] \approx 1$, this term has almost no effect on the calculations.

Figure 6 shows an uncertain VMT projection from each of the methods. The projection from probabilistic decision-making is below the other three projections, and consistently below the target. In this particular figure the Markovian projection is similar to the deterministic and expected value projections, and the three of them are mostly above the target line. However, recall that these are uncertain VMT projections. New projections for VMT will be plotted each time the MATLAB program is run. Because of this, the probability density function (PDF) of VMT is plotted in Figure 7 to show the relative likelihood of VMT violating the target in a given year.
Figure 6: Projections of uncertain VMT with a fuel tax.

Figure 7: PDFs of VMT in 2020.

Figure 7 shows projections from probabilistic decision-making are the most likely to meet the target. The selection of $\omega$ in the probabilistic method can be graphically seen here, because 90% of the probabilistic PDF is less than the target. The remaining three PDFs are centered on the target, which shows their means are very close to the target. The Markovian PDF is narrower than the deterministic and expected value PDFs. This suggests VMT
projections from Markovian decision-making tend to be closer to the target. All of the PDFs appear symmetric, indicating the mean and median of each method are very similar. Figure 8 gives a closer look at how the mean and median of each decision-making method compares to the target. The mean and median from deterministic, expected value, and Markovian decision-making fall right on the target line. In fact, the deterministic median, expected value mean, and Markovian median are not plotted in Figure 8 because, by definition, they are exactly equal to the target.

Figure 8: Mean and median VMT.

The purpose of this chapter is to show how the uncertain VMT equation can be used to help policy makers decide on the best policy to reduce transportation GHG emissions. Although projecting GHG emissions is beyond the scope of this research, emissions can be represented by the amount of fuel consumed. Figure 9 and Figure 10 show projections for the fuel consumed by each driver and by the entire US population.
All four decision-making techniques project fuel consumption per licensed driver to steadily decrease. It is especially rewarding to see that total US fuel consumption is also expected to decline over time. Even though the US population, and therefore the number of vehicles being driven, will undoubtedly increase every year, the uncertain VMT model still predicts total fuel consumption to decrease.
Figure 10 provides evidence that a fuel tax would reduce GHG emissions. However, this environmental benefit would come at a significant cost to drivers. Figure 11 gives the fuel tax necessary for VMT to meet the specified target mileage. As expected, probabilistic decision-making provides the highest projections of fuel tax. The total amount each driver can expect to spend on the fuel tax ever year is plotted in Figure 12.

![Figure 11: Projections of the fuel tax required to reduce VMT to the target.](image1)

![Figure 12: Projections of the total fuel tax paid each year per licensed driver.](image2)
All four of the decision-making techniques discussed in this chapter achieve the primary goal: a tax is calculated that effectively reduces VMT to a specified target, which decreases the amount of transportation GHG emissions. Probabilistic decision-making is the most drastic of the four methods. It projects the highest fuel tax, lowest VMT, and lowest fuel consumption. However, it also allows policy makers to have the most control over the VMT projections because any degree of certainty ($\omega$) can be used. If the fuel tax seems too extreme, then the target could be raised or the degree of certainty lowered to produce more desirable forecasts. These methods could guide policy makers to better-informed policy decisions, but they are only possible if some amount of uncertainty is incorporated into the model.
CHAPTER 5: CONCLUSION

5.1 Summary

The National Energy Modeling System (NEMS) is a computational model that forecasts the production, consumption, and prices of energy in the United States. Policy makers rely heavily on NEMS forecasts to make informed energy policy decisions. These forecasts depend significantly on a variety of economic assumptions, future oil prices, consumer preferences and behaviors, new technologies yet to be developed, and numerous other uncertain inputs. The uncertainties in NEMS need to be communicated to policy makers in order for them to develop better-informed decisions regarding energy policy.

Part of the Transportation Module of NEMS projects the demand for personal travel through its vehicle miles traveled (VMT) equation. In this research, uncertainty is added to the VMT model as a prototype to demonstrate the importance and benefit of uncertainty in NEMS. This starts with deriving the model and estimating its parameters. In order to find the most appropriate estimation method, three different techniques are applied to the VMT model: Cochrane-Orcutt, maximum likelihood, and Prais-Winsten. The maximum likelihood and Prais-Winsten techniques are both preferred over Cochrane-Orcutt because they both produce an estimate for $\sigma$, and the Cramér-Rao Lower Bound can be used to estimate the standard errors of their parameters. Even though Prais-Winsten estimation attempts to improve upon maximum likelihood estimation, its parameter estimates are found to fit the historical data with less accuracy. Therefore, maximum likelihood is the best estimation method for the VMT equation.
The maximum likelihood parameter estimates and their standard errors provide the necessary statistics to add uncertainty to the parameters and the error term of the VMT equation. A Monte Carlo simulation is performed to model the uncertain VMT equation and demonstrate the range of possible VMT forecasts when these uncertainties are included. The 100 trajectories that are modeled suggest the NEMS deterministic forecast does not adequately reflect all of the possible futures of VMT. Two more Monte Carlo simulations are done to find the main source of uncertainty in the VMT model. This reveals that the error term alone accounts for most of the uncertainty in the model. Simply adding a normal error term to the model, while keeping the rest of the parameters and inputs deterministic, would adequately represent the uncertainties present in the VMT model.

Transportation sources contribute nearly a third of the total US greenhouse gas (GHG) emissions. Decreasing VMT is the most effective way to decrease GHG emissions, and significant reductions in VMT can only be achieved by increasing the cost of driving with a fuel tax. A target is set for VMT for each of the projected years, and four decision-making techniques are used to calculate the fuel tax required to reduce VMT to this specified goal. Deterministic, expected value, and Markovian decision-making all have a mean and median very close or identical to the target. Their VMT projections meet the target about half of the time. Probabilistic decision-making projects the highest fuel tax, lowest VMT, and lowest fuel consumption. It also allows policy makers to decide the probability of the projection meeting the target. All four decision-making techniques calculate a fuel tax that reduces VMT to the target and decreases fuel consumption, thus reducing GHG emissions. This demonstrates that an uncertain VMT equation can be used to help policy makers decide on the best policy to reduce transportation GHG emissions.
5.2 Future Work

The Monte Carlo simulation used in Chapter 3 is an effective and practical method for the purposes of this research. Only one uncertain equation is modeled, and only 100 random samples of the model are taken. If uncertainty was included in NEMS at a larger scale, then Monte Carlo methods would no longer be practical. NEMS is a detailed and complex model. Monte Carlo sampling from all of NEMS uncertain inputs would require far too much computation time. Gentle (2002) describes faster sampling methods such as quasi-random, importance, and Latin Hypercube sampling. However, even these methods require too many evaluations of NEMS to be reasonable solutions. If uncertainty was included in large portions of NEMS then stochastic collocation strategies must be applied to model this uncertainty. Sparse grid collocation could model the uncertainty in NEMS with fast convergence and without changing the current deterministic code (Ganapathysubramanian & Zabaras, 2008).
APPENDIX A: VMT MODEL FOR PRAIS-WINSTEN ESTIMATION

The VMT model used in Prais-Winsten estimation is given below.

\[ m_1 = x_1 \beta + \frac{N_1}{\sqrt{1 - \rho^2}} \]

\[ m_y = \rho m_{y-1} + (x_y - \rho x_{y-1}) \beta + N_y \quad y = 2,3,\ldots,Y \]

The Prais-Winsten model is unique in that it uses a different model for the first year of known historical data. To derive this equation, start with the time series model for the first year and repeatedly substitute in for \( \varepsilon_y \) (2.3).

\[ m_1 = x_1 \beta + \rho \varepsilon_0 + N_1 \]

\[ = x_1 \beta + \rho^2 \varepsilon_{-1} + \rho N_0 + N_1 \]

\[ \vdots \]

\[ = x_1 \beta + \rho^k \varepsilon_{-k} + \cdots + \rho N_0 + N_1 \]

\[ \vdots \]

\[ = x_1 \beta + \sum_{k=0}^{\infty} \rho^k N_{1-k} \quad (A.1) \]

The last term here is also a normal variable. So let \( \hat{N}_1 = \sum_{k=0}^{\infty} \rho^k N_{1-k} \) where

\[ \hat{N}_1 \sim \text{Normal} \left(0, \frac{\sigma^2}{1-\rho^2} \right) \]. The VMT model then becomes

\[ m_1 = x_1 \beta + \hat{N}_1 \]

\[ \hat{N}_1 \sim \text{Normal} \left(0, \frac{\sigma^2}{1-\rho^2} \right) \]

\[ m_2 = x_2 \beta + \rho \varepsilon_1 + N_2 \quad N_2 \sim \text{Normal} \left(0, \sigma^2 \right) \quad (A.2) \]

\[ \vdots \]

\[ m_y = x_y \beta + \rho \varepsilon_{y-1} + N_y \quad N_y \sim \text{Normal} \left(0, \sigma^2 \right) \]
Notice that the normal error in the model for the first year has a different variance than the rest of the normal errors. Prais-Winsten “corrects” this problem by making the assumption

$$\sqrt{1 - \rho^2} \hat{N}_1 = N_1 \text{ where } N_1 \sim \text{Normal}(0, \sigma^2).$$

The final VMT model then becomes

$$\sqrt{1 - \rho^2} m_1 = \sqrt{1 - \rho^2} x_i \beta + N_1 \quad N_1 \sim \text{Normal}(0, \sigma^2)$$

$$m_2 = x_2 \beta + \rho \varepsilon_i + N_2 \quad N_2 \sim \text{Normal}(0, \sigma^2)$$

$$\vdots$$

$$m_y = x_y \beta + \rho \varepsilon_{y-1} + N_y \quad N_y \sim \text{Normal}(0, \sigma^2)$$

(A.3)
APPENDIX B: VMT MODEL FOR DECISION-MAKING ANALYSIS

This appendix shows how the VMT model used in Chapter 2 is converted into the VMT model used in Chapter 4. Only the probabilistic VMT model is derived here. The deterministic model is derived exactly the same way, except there is no error term at the end of the model. This may seem like a trivial review of algebra and logarithmic identities, but it is important to see that the two models are the same, though they look very different.

\[
m_y - \rho m_{y-1} = \beta_0 (1 - \rho) \\
+ \beta_m (m_{y-1} - \rho m_{y-2}) \\
+ \beta_i (i_y - \rho i_{y-1}) \\
+ \beta_c (c_y - \rho c_{y-1}) \\
+ N_y
\]

\[
\log(\tilde{M}_y) = \rho \log(\tilde{M}_{y-1}) + \beta_0 (1 - \rho) \\
+ \beta_m \left[ \log(\tilde{M}_{y-1}) - \rho \log(\tilde{M}_{y-2}) \right] \\
+ \beta_i \left[ \log(I_y) - \rho \log(I_{y-1}) \right] \\
+ \beta_c \left[ \log(C_y) - \rho \log(C_{y-1}) \right] \\
+ N_y
\]

\[
\log(\tilde{M}_y) = \beta_0 (1 - \rho) \\
+ (\beta_m + \rho) \log(\tilde{M}_{y-1}) - \beta_m \rho \log(\tilde{M}_{y-2}) \\
+ \beta_i \log(I_y) - \beta_i \rho \log(I_{y-1}) \\
+ \beta_c \log(C_y) - \beta_c \rho \log(C_{y-1}) \\
+ N_y
\]
\[
\log(\tilde{M}_y) = \beta_0 (1 - \rho) + \log(\tilde{M}^{\beta_y + \rho}_{y-1}) - \log(\tilde{M}^{\beta_y \rho}_{y-2}) + \log(I^{\beta_y}_{y}) - \log(I^{\beta_y \rho}_{y-1}) + \log(C^{\beta_c}_{y}) - \log(C^{\beta_{c\rho}}_{y-1}) + N_y
\] (B.4)

\[
\log(\tilde{M}_y) = \beta_0 (1 - \rho) + \log\left(\frac{\tilde{M}^{\beta_y + \rho}_{y-1}}{\tilde{M}^{\beta_y \rho}_{y-2}}\right) + \log\left(\frac{I^{\beta_y}_{y}}{I^{\beta_y \rho}_{y-1}}\right) + \log\left(\frac{C^{\beta_c}_{y}}{C^{\beta_{c\rho}}_{y-1}}\right) + N_y
\] (B.5)

\[
\tilde{M}_y = e^{\beta_0 (1 - \rho)}\left(\frac{\tilde{M}^{\beta_y + \rho}_{y-1}}{\tilde{M}^{\beta_y \rho}_{y-2}}\right)\left(\frac{I^{\beta_y}_{y}}{I^{\beta_y \rho}_{y-1}}\right)\left(\frac{C^{\beta_c}_{y}}{C^{\beta_{c\rho}}_{y-1}}\right)e^{N_y}
\] (B.7)

\[
\tilde{M}_y = e^{\beta_0 (1 - \rho)}\left(\frac{\tilde{M}^{\beta_y + \rho}_{y-1}}{\tilde{M}^{\beta_y \rho}_{y-2}}\right)\left(\frac{I^{\beta_y}_{y}}{I^{\beta_y \rho}_{y-1}}\right)^{\beta_y} \left(\frac{C^{\beta_c}_{y}}{C^{\beta_{c\rho}}_{y-1}}\right)^{\beta_{c\rho}}e^{N_y}
\] (B.8)

\[
\tilde{M}_y = e^{\beta_0 (1 - \rho)}\left(\frac{\tilde{M}^{\beta_y + \rho}_{y-1}}{\tilde{M}^{\beta_y \rho}_{y-2}}\right)\left(\frac{I^{\beta_y}_{y}}{I^{\beta_y \rho}_{y-1}}\right)^{\beta_y} \left(\frac{P_y + T_y}{E_y C^{\beta_{c\rho}}_{y-1}}\right)^{\beta_{c\rho}}e^{N_y}
\] (B.9)
APPENDIX C: THE PROBABILISTIC VMT MODEL

Recall the deterministic (4.2) and probabilistic (4.3) VMT models used in Chapter 4 and derived in Appendix B.

\[ M_y = e^{\beta_y (1-\rho)} \left( \frac{M_{y-1}^{\beta_y + \rho}}{M_{y-2}^{\beta_y \rho}} \right) \left( \frac{I_y}{I_{y-1}^{\rho}} \right)^{\beta_y} \left( \frac{P_y + T_y}{E \, C_y^{\rho}} \right)^{\beta_c} \]

\[ \tilde{M}_y = e^{\beta_y (1-\rho)} \left( \frac{\tilde{M}_{y-1}^{\beta_y + \rho}}{\tilde{M}_{y-2}^{\beta_y \rho}} \right) \left( \frac{I_y}{I_{y-1}^{\rho}} \right)^{\beta_y} \left( \frac{P_y + T_y}{E \, C_y^{\rho}} \right)^{\beta_c} e^{N_y} \]

The three uncertain inputs of the probabilistic model need to be combined into one error term for some of the analysis done in Chapter 4. To ease the notation, condense all of the deterministic inputs of the probabilistic model into one term \( \phi_y \).

\[ \tilde{M}_y = \phi_y \left( \frac{\tilde{M}_{y-1}^{\beta_y + \rho}}{\tilde{M}_{y-2}^{\beta_y \rho}} \right) e^{N_y} \quad (C.1) \]

Now let \( M_0 \) be the actual VMT from the year before the projection is made. Similarly, let \( M_{00} \) be the actual VMT from two years before the projection is made. Then the equation for the first projected year is

\[ \tilde{M}_1 = \phi_1 \left( \frac{M_0^{\beta_y + \rho}}{M_{00}^{\beta_y \rho}} \right) e^{N_1} \quad (C.2) \]

Notice that if the deterministic model was being used here its equation would be the same except for the error term. So the probabilistic model can be written in terms of the deterministic model.
\[
M_1 = \phi_1 \left( \frac{M_0^{\beta_u + \rho}}{M_0^{\beta_u \rho}} \right) \Rightarrow \tilde{M}_1 = \left( M_1 \right)^{e_{N_1}} \quad (C.3)
\]

The equation for the second year is then calculated from (C.1), and (C.2) is substituted into the model to get rid of the uncertainty in VMT.

\[
\tilde{M}_2 = \phi_2 \left( \frac{\tilde{M}_1^{\beta_u + \rho}}{M_0^{\beta_u \rho}} \right)^{e_{N_2}} = \phi_2 \left[ \frac{\phi_1^{(\beta_u + \rho)} \left( \frac{M_0^{\beta_u + \rho}}{M_0^{\beta_u \rho}} \right) e^{(\beta_u + \rho) N_1}}{M_0^{\beta_u \rho}} \right]^{e_{N_2}}
\]

\[
= \phi_2 \phi_1^{(\beta_u + \rho)} \left( \frac{M_0^{\beta_u + \rho + \rho^2}}{M_0^{\beta_u \rho + (\beta_u + \rho)^2}} \right) e^{N_2 + (\beta_u + \rho) N_1} \quad (C.4)
\]

Again, this probabilistic equation is written in terms of its corresponding deterministic equation.

\[
M_2 = \phi_2 \phi_1^{(\beta_u + \rho)} \left( \frac{M_0^{\beta_u + \rho + \rho^2}}{M_0^{\beta_u \rho + (\beta_u + \rho)^2}} \right) \Rightarrow \tilde{M}_2 = \left( M_2 \right)^{e_{N_2 + (\beta_u + \rho) N_1}} \quad (C.5)
\]

The same process is done to get an equation for the third year.

\[
\tilde{M}_3 = \phi_3 \left( \frac{\tilde{M}_2^{\beta_u + \rho}}{M_0^{\beta_u \rho}} \right)^{e_{N_3}} = \phi_3 \left[ \frac{\phi_2^{(\beta_u + \rho)} \phi_1^{(\beta_u + \rho)^2} \left( \frac{M_0^{\beta_u + \rho + \rho^2}}{M_0^{\beta_u \rho + (\beta_u + \rho)^2}} \right) e^{(\beta_u + \rho) N_2 + (\beta_u + \rho)^2 N_1}}{M_0^{\beta_u \rho}} \right]^{e_{N_3}}
\]

\[
= \phi_3 \phi_2^{\beta_u + \rho} \phi_1^{\beta_u + \rho + \rho^2} \left( \frac{M_0^{\beta_u + \rho + \rho^2 + \rho^3}}{M_0^{\beta_u \rho + (\beta_u + \rho)^2 + \rho^3}} \right) e^{N_3 + (\beta_u + \rho) N_2 + (\beta_u + \rho)^2 N_1} \quad (C.6)
\]
\[ \tilde{M}_3 = (M_3) e^{N_3 + (\beta_{M_3} + \rho)N_2 + (\beta_{M_3} + \beta_{M_3} + \rho^2)N_1} \]  
(C.7)

At this point a pattern can be seen for the probabilistic VMT equation and its log normal error. Let \( N_y^* \) be the normal random variable such that

\[ \tilde{M}_1 = (M_1) e^{N_1^*} \]
\[ \tilde{M}_2 = (M_2) e^{N_2^*} \]
\[ \tilde{M}_3 = (M_3) e^{N_3^*} \]
\[ \vdots \]
\[ \tilde{M}_y = (M_y) e^{N_y^*} \]  
(C.8)

Substituting (4.2) into (C.8) yields the uncertain VMT model that is used in Chapter 4.

\[ \tilde{M}_y = e^{\beta_y (1 - \rho)} \left( \frac{M_y \beta_y + \rho}{M_{y-2} \beta_y + \rho} \right)^{\beta_y} \left( \frac{I_y}{I_{y-1}} \right)^{\beta_y} \left( \frac{P_y + T_y}{E_{y} C_{y-1}^\rho} \right)^{\beta_y} e^{N_y^*} \]  
(C.9)

The new normal error \( (N_y^*) \) is defined as follows.

\[ Q_1 = 1 \]
\[ Q_2 = \beta_M + \rho \]
\[ Q_3 = \beta_M^2 + \beta_M \rho + \rho^2 \]
\[ Q_4 = \beta_M^3 + \beta_M^2 \rho + \beta_M \rho^2 + \rho^3 \]
\[ \vdots \]
\[ Q_y = \sum_{j=1}^{y} \beta_y^{y-j} \rho^{j-1} \]  
(C.10)

\[ N_1^* = Q_1 N_1 \]
\[ N_2^* = Q_1 N_2 + Q_2 N_1 \]
\[ N_3^* = Q_1 N_3 + Q_2 N_2 + Q_3 N_1 \]
\[ N_4^* = Q_1 N_4 + Q_2 N_3 + Q_3 N_2 + Q_4 N_1 \]
\[ \vdots \]
\[ N_y^* = \sum_{i=1}^{y} Q_i \left( N_{y+1-y} \right) \]  
(C.11)
REFERENCES


