Impact of climate change on the cost optimal mix of decentralized heating in Europe

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Abstract

Residential demands for space heating and hot water account for 31% of the total European energy demand. Space heating is highly dependent on ambient conditions and susceptible to climate change. We adopt a techno-economic standpoint and assess the impact of climate change on decentralized heating demand and the cost-optimal mix of heating technologies. Temperature data with high spatial resolution from nine climate models implementing three Representative Concentration Pathways from IPCC are used to estimate climate induced changes in the European demand side for heating. The demand side is modelled by the proxy of heating-degree days. The supply side is modelled by using a screening curve approach to the economics of heat generation. We find that space heating demand decreases by up to 16% and 24% in low and intermediate concentration pathways. This reduction reaches 42% in the most extreme global warming scenario. When considering historic weather data, we find a heterogeneous mix of technologies are cost-optimal, depending on the heating load factor (number of full-load hours per year). Increasing ambient temperatures toward the end-century improve the economic performance of heat pumps in all concentration pathways. Cost optimal technologies broadly correspond to heat markets and policies in Europe, with some exceptions.

Keywords: Climate change, decentralized heating, cost optimization, CMIP5, IPCC, EURO-CORDEX, high resolution data, heat, policy

1. Introduction

Energy consumption for space heating is by far the most important end-use in the European (EU28) residential heating sector with an estimated share of 52% in 2015 (Fleiter et al., 2017). Space heating is strongly temperature dependent and mostly consumed during cold winter seasons (Kozarcanin et al., 2019). Heating systems are therefore designed to allow for natural short term (intra- and inter-annual) temperature variations, but for long term design decisions it is necessary to focus on long term changes in the climate. Given these points, the principal aim of this study is to analyse the 21st Century climate change impact on the selection of cost optimal, decentralized heating technologies for different locations in Europe. This paper draws upon Climate affected temperature data from the newest simulations carried out in the framework of the CMIP (Coupled Model Inter-comparison Project) Phase 5 (Taylor et al., 2012; Flato et al., 2013) and the EURO-CORDEX project (Kotlarski et al., 2014; Jacob et al., 2014). We present nine climate models from a combination of 4 regional climate models, RCM, downsampling 5 global climate models, GCM, under the forcing of the latest generation of climate projections provided by the Intergovernmental Panel on Climate Change, IPCC (Moss et al., 2010). For this study, we use the best available resolutions which is 3hr in time and 0.11° × 0.11° ≈ 12km × 12km in space for Europe. A full description of the climate data is provided in the Supplementary Information Section 4 (SI.4).

A fundamental impact on the selection of heating technologies, that to the best of the authors knowledge has not been studied in detail, is the impact of local climates on the cost optimal design of decentralized heating systems. Spatial variations in the ambient temperatures fluctuate heterogeneously from the oceanic to the mainland climates of West and East Europe, respectively, and from the cold northern to the warmer southern climates. Climate change is furthermore expected to introduce long term and heterogeneous temperature anomalies across Europe. Whereas hot water demand is relatively constant throughout the year and between years (Staffell et al., 2015), the energy consumed for space heating will therefore fluctuate more wildly and be subject to long-term trends that are currently not well understood.

A secondary aim of this paper is to evaluate the fit between cost optimal technologies for decentralised heating and
heat policies in Europe. Actual deployment of heating technologies in different countries may not necessarily reflect which technologies are most cost optimal in a given location. The purpose of this policy assessment is to identify where policy intervention might be required to achieve cost optimal outcomes, while contributing to overall efforts to decarbonize heating.

Fig. 1 illustrates the current technology shares that are responsible for delivering the decentralized heat for a majority of the European countries. The European average bar shows that fossil fueled boilers dominate the heat generation, followed by biomass fueled technologies. Heat pumps are relatively new technologies compared to boilers and consequently hold a minor share of the total installed technology stock. On the other hand, heat pumps are gaining more attention with 99% of the units installed after 2002 while 42% of the fossil fuel boilers were installed previous to 1992 (Fleiter et al., 2016). The large increase in the penetration of heat pumps in European homes has been motivated by various policy and regulatory drivers such as subsidies and carbon taxes, building regulations, improved technical standards and information dissemination (Hanna et al., 2016, Zimny et al., 2015).

We focus on the European aggregated space heat demand and examine the extent to which it changes under the impact of global warming. We then estimate the consequent changes in the CO₂- emissions. To isolate the effect of climate change, we assume an unchanged stock of national heat generating technologies throughout the 21st Century. For each 144 km² grid cell, defined by the spatial resolution of the climate data, we map a cost optimal technology for a historical time frame 1970–1990 and for an end-century time frame 2080–2100, and compare the differences. The demand and supply sides are modelled as highly temperature dependent. The heat demand is modelled through the heat load factor, which most commonly is determined as the fraction of the yearly averaged heat demand to the maximum. For the supply side, we introduce a simplified techno-economic standpoint of heat generation. Initially, we exclude policy decisions but a section is devoted to a policy assessment of the results. The application of state-of-the-art technical procedures combined with the large ensemble of highly granular climate data, that support the analyses, is considered as novel to existing literature. In summary, this approach provides new and more robust results that quantify the change in space heat demand throughout this century.

A limited amount of research has been devoted to this field, all with a focus on historical heating systems. Frederiksen and Werner (2013) calculate the heat load capacity factors for 80 locations in Europe for a historical time frame spanning the years 1981–2000. Scoccia et al. (2018) compares, under historical weather conditions that are typical to the European region, the seasonal performances of six heating system configurations and finds results that are sensitive to the selection of electricity and gas driven heat pumps.

This paper is structured as the following: Section 2 presents the methodologies of this paper. Results are presented in Section 3. Current policies on decentralized heating in Europe along with future prospects are presented in Section 4 along with the study limitations. Conclusions and policy implications are presented in Section 5. Finally, a nomenclature is added in Section 6.

2. Methodology

We devote this section to a qualitative description of the methods that are used in this work. A detailed derivation of the mathematical formulations can be found in the Supplementary Information Section 1 to 3.

2.1. Technology and price assumptions

Inspired by Fig. 1 the following listed technologies compose the ensemble of the decentralized heat generating technologies in this study:

**Electricity driven air source heat pumps (ASHP)** draw heat from the ambient air to supply hot water and space heating through hydraulic based water systems. Air source heat pumps require only an outdoor and indoor unit and therefore easy to retrofit into existing houses. A limited amount of equipment and installation procedures give this technology an economic advantage compared to ground source heat pumps. On the other hand, the large temperature fluctuations between the external heat collector (source temperature) and the output at home (sink temperature) throughout the year, especially in winter periods with high heat demand and low ambient temperatures, challenge their efficiency, denoted by the Coefficient Of Performance (COP). In this work, we calculate temporally- and spatially-explicit COP values based on the prevailing air and soil temperature, with a sink temperature of 55 °C Staffell et al. (2012). Full details are given in (SI.3).

**Electricity driven ground source heat pumps (GSHP)** are identical to the previous, but draws heat from the soil instead, which offers a substantially higher yearly averaged COP. Temperature measurements from existing boreholes in Denmark show that at a depth of 20 meters, the ground temperatures have settled, i.e., seasonally independent (GIAU/GEUS, 2014). In this work we calculate the ground temperatures as an average of 20 year air temperatures, which corresponds to temperatures at a depth of approximately 50 meters below ground, depending on soil type and geographical location. The higher capital investments of ground source heat pumps are compensated by the lower running costs compared to air source heat pumps.
Air-to-air heat pumps with auxiliary electricity driven boilers (A2A+EB) is a hybrid system that consists of an electric boiler for hot water supply and an air-to-air heat pump that draws heat from the ambient air and supply heat through air exchangers. Air-to-air heat pumps have the lowest capital investments of all the heat pumps. Furthermore, air-to-air heat pumps utilise a lower sink temperature, which in this work is assumed to be 30°C [Staffell et al. (2012)]. This increases the COP further, and consequently reduces the running costs significantly. Since air-to-air heat pumps cannot provide hot water they have to be installed alongside a hot water technology, which we assume is an electricity driven boiler. The combined technology efficiency will then be reduced. The share of each technology is determined by the individual shares of space heat and hot water demand to the total amount.

Natural gas fired boilers are assumed to cover both the hot water demand and space heat with hot water circulating through radiators. This technology has a very low capital cost but also a lower efficiency, which in turn increases the running costs.

Oil fired boilers are identical to the previous but fired with oil.

Biomass boilers cover both the space heat demand and hot water by connection to radiators. The boiler is assumed to be automatically stocked. These types of boilers most commonly utilize wood pellets as fuel, which leads to the expensive fuel price in Tab. 1.

The stock of coal fired boilers has reduced heavily since 1992 with 58% of all units being installed before 1992 and 12% after 2002 [Fleiter et al. (2016)]. Currently, coal fired boilers comprise only 2% of the total heating technology stock in Europe [Fleiter et al. (2016)]. The decreasing trend is mainly believed to be a result of aggressive CO₂ and air quality policies in the European countries. As a result, we exclude the coal fired boilers in this study.

Mature technologies such as fossil fueled boilers have relatively small uncertainties on the capital investments. Immature technologies such as heat pumps are still relatively new to the market and therefore subjected to significant uncertainties. These are mostly related to overcoming technological barriers, future markets and the technology demand [Energinet, 2016].

In Tab. 1 we summarize the technology properties and prices for retrofit into existing single family houses. As the focus of this paper is on the impact of climate change on heating across a continent, rather than modelling the bespoke heating mix in individual countries, all prices are excluding national taxes and levies, and assumed to be constant across regions. This allows for a direct measure and comparison of the impact of climate change across regions and time. Furthermore, this procedure reduces uncertainties related to national policies on tax regulations. For the same reasons, we ignore infrastructure constraints such as the absence of gas distribution networks in many countries and the inability of electricity distribution networks to meet large demands for heating from other countries.

2.2. Heat load factors

The heat load factor, HLF, denoted as , is defined as the unitless ratio of the average residential heat demand, \( L_{\text{Total}} \), to the maximum possible output of heat, \( P_{\text{Total}} \), over a given time period, \( \Delta \), as:

\[
\mu = \frac{\langle L_{\text{Total}} \rangle}{P_{\text{Total}} \cdot \Delta}
\]
The decentralized nature of heating means that data on consumption is not readily available and therefore not applicable. Known to the literature, the theory of heating degree-days and its application to approximate the variations in the day-to-day heat demand. The theory of the heating degree-days is most frequently used as a best proxy for consumption is not readily available and therefore not applicable. Known to the literature, the theory of heating degree-days and its application to approximate $L_{\text{Total}}$ is described formally in (SI.1). The maximum output of heat, $P_{\text{Total}}$, depends on the cold extreme temperature, as described in (SI.1).

Cold climates are usually the main drivers of increased heat load factors, which is an effect of low peak demand hours for heating relative to the base load hours. High load factors are consistent with a reduction in the overall cost per kWh of heat generated, since fixed expenses would be spread across more units of energy generated, hence the cost per unit of generation is reduced. Furthermore, a high load factor leads to comparatively less variation in the heat load at various times, which avoids a frequent use of technology modulation. Technologies with low marginal costs such as heat pumps prove as economically favourable in these circumstances. On the other hand, warmer climates tend to decrease the heat load factors, as peak hours deviate considerably relative to the base load hours. Technologies with low capital investments would serve as economically favourable in these conditions. In contrast to the electricity load factor, the heat load factor cannot utilize, e.g., load shifting in order to meet peak values. This is mainly reasoned by the direct weather impacts.

### 2.3. Techno-economic standpoint of heat generation

In a simplified approach to the economics of heat generation only the most significant costs and properties of decentralized technologies are included. Firstly, we include capital investments which are fixed, one time expenses, made up of equipment and installation costs. Equipment expenses cover the machinery including environmental facilities, whereas installation expenses cover engineering, civil works, buildings, grid connection, installation and commissioning of equipment and installation expenses cover engineering, civil works, buildings, grid connection, installation and commissioning of equipment (Energinet 2016). A yearly fixed maintenance expense is added. It includes all costs that are independent of how the technology is operated (Energinet 2016). Finally, we include marginal costs, which primarily depend on the technology operation time. Small scale effects such as the decrease in efficiencies or increase in maintenance expenses as a function of time are ignored. All technology properties and prices are formally introduced in Section 2.1.

The hourly accumulated cost, $X_{\text{TOT}}^{\theta}$, for a technology, $\theta$, depends linearly on the heat load factor, $\mu_x$, at each grid location, $x$, as:

$$X_{\text{TOT}}^{\theta} = X_{\text{TOT}}^{\mu} + \mu_x \cdot X_{\text{TOT}}^{\theta}$$  \hspace{1cm} (2)

A detailed review of the capital and marginal expenses, $X_{\text{TOT}}^{\mu}$ and $X_{\text{TOT}}^{\theta}$, respectively, is conducted in (SI.2).

### 2.4. Example of an application

The heat load factor, $\mu_x$, is calculated at first for each grid location, $x$, as shown in Eq. 1. The heat expenses are then calculated for each technology, $\theta$, and each grid location, $x$, by using Eq. 2. The data covers a modelling time span of 20 years, since 20 years define the approximate extent of a climatic period and the typical lifespan of a heating technology. Fig. 2 shows the accumulated expenses as a function of the heat load factor, $\mu$, for the grid cell of southern Stockholm, Sweden. This is termed in the screening curve for heating technologies, analogous to the screening curves used for comparing electricity generation costs (Staffell and Green 2015). In the case of oil and biomass boilers, high fuel prices and low efficiencies result in large operational expenses, which make these technologies highly uncompetitive. On the other hand,
high COPs of heat pumps compensate for their high capital investments, which make these technologies competitive to gas boilers at high values of $\mu$.

For Stockholm, the optimal technologies consist of gas boilers, air-to-air heat pumps with auxiliary electricity driven boilers and ground source heat pumps. For heat load factors below 0.11, gas boilers would serve as the cost optimal choice for heating purposes. Since heat load factors never reach this domain it stays as non-applicable. For heat load factors between 0.11 and 0.42, air-to-air heat pumps with auxiliary electricity driven boilers would serve as a cost optimal choice. Finally, for heat load factors above 0.42, ground source heat pumps would be cost optimal. The heat load factor of southern Stockholm, $\mu_{\text{Stockholm}}$, equals 0.32, for which air-to-air heat pumps with auxiliary electricity driven boilers would serve as cost optimal. This procedure is repeated for each of the 412 x 424 grid locations in the data set and for all of the nine climate models.

3. Results

3.1. Impact of climate change on the heating degree-days
Initially, we present results that show the extent to which the European aggregated heating degree-days change under the impact of global warming. Prior to the aggregation, the gridded temperature profiles, $T_x(t)$, have been weighted according to the population density for each country (CIESIN, 2016). The weighting is especially important for the Nordic countries as, e.g, Norway, where the sparsely populated areas in the north, otherwise, would contribute significantly to the aggregation. Fig. 3 presents the yearly aggregated heating degree-days for Europe from 1970 to 2100 for each of the three projections of climatic outcomes, RCP2.6, RCP4.5 and RCP8.5. Each yearly result is composed of a climate model ensemble average and shown relative to the corresponding 1970 value. A 10 year moving average (full drawn curves) is used to highlight the long-term trends over annual fluctuations. It is clear that all climate change pathways result in a decreasing trend in the heating degree-days, with magnitudes being specific to the climate conditions of each RCP. The year of 2100 in RCP8.5 shows a decrease of approximately 42% in comparison to 1970, which is a consequence of almost 5 °C temperature increase in the business-as-usual scenario. Corresponding values for RCP2.6 and RCP4.5, are 16% and 24%, respectively. The uncertainties stay below ±8% of the ensemble average for all RCPs, which provides a strong evidence of agreement among the ensemble of climate models. We recall, that the temperature output have initially been adjusted for possible biases.

To estimate the resulting change in the CO$_2$-emissions from space heating, we assume a fixed national stock of heating technologies throughout the century, to remove the effect of technological change and to isolate the effect of climate change. Based on 2015 values, the production of electricity and heat in the EU28 accounted for approximately 30% of total CO$_2$-emissions, with heat production accounting for more than half of this share (International Energy Agency, IEA, 2018). Altogether, a decrease of 42% in the heating degree-days for RCP8.5, leads to a decrease of 12.5% in the CO$_2$-emissions. For RCP2.6 and RCP4.5 the respective values are 4.8% and 7.2%. In the following, we focus on the supply side of heat, in a search for the cost optimal technologies to cover the changing demand throughout the 21st Century.

For the remainder of the results section, we move way from the aggregated approach and instead focus on each grid location separately. For each location, we determine the cost optimal heating technology by following the procedure explained in Section 2.4. Initially, we present results only based on a predefined reference period for the ICHEC-EC-EARTH HIRHAM5 climate model. We then present equivalent results for all climate projections and climate models, but we stress, however, that during the analysis, all data has been treated equivalently.

3.2. Cost optimal heating technologies in a historic time frame
The unperturbed cost assumptions, presented in the first four rows of Tab. 1 are subjected to uncertainties that strongly reflect the maturity of the technologies. These will naturally propagate into output uncertainties, meaning that the selection of cost optimal technologies might be as uncertain as the input prices, which they
are subjected to. In order to assess the robustness of the selection of cost optimal technologies, the optimization process, as explained in Section 2.4, has been run with 100 Monte Carlo trials for the pricing scheme. Each pricing scheme consists of a random perturbation of the unperturbed installation, equipment, maintenance and fuel prices subjected to their respective uncertainty ranges.

The results of the optimization processes are presented on the radar chart in Fig. 4b for all pricing schemes. Each plot shows the normalised number of grid cells (proportional to land area across Europe) for which a technology serves as a cost optimal, i.e., sum of the technology shares for a single plot is 100%. It becomes clear that each individual pricing scheme defines a unique technology distribution, resulting in a highly cost-sensitive outcome of the optimization. The unperturbed pricing scheme, presented in Tab. 1 leads to a single technology dominance, i.e., gas boilers serve as cost optimal in all grid locations, as shown with blue in Fig. 4a. This is a result of substantially lower gas boiler prices compared to the remainder technology prices. Focusing briefly on the end of century climatic periods, we find that the unperturbed pricing scheme leads to an identical technology distribution as for the historical period, for all projections of climatic outcomes. This is an important issue to address, as with this pricing scheme, the impact of climate change will not show its potential significance in the selection of technologies. The significance of climate change is therefore clarified by selecting a pricing scheme that to a high-
est degree defines a balanced distribution of technologies. The selection is based on minimizing the sum of squares of the difference between a technology share, \( \theta_i \), and the maximum appearing technology share, \( \theta_{\text{max,i}} \), as shown in Eq. 3, which leads to the balanced pricing scheme, presented in Tab. 2. The balanced pricing scheme is classified as a unique outcome of the perturbation process, where the gas boiler expenses increase significantly compared to the respective increase in heat pump expenses, which gives heat pumps an economic benefit. The red plot in Fig. 4a illustrates the resulting technology share by using the balanced pricing scheme. Gas boilers cover 59% of Europe whereas ground source heat pumps cover 26% and the hybrid of air-to-air heat pumps and auxiliary electricity driven boilers cover 15%.

\[
\min_{\theta} \sum_i (\theta_i - \theta_{\text{max,i}})^2
\]

(3)

Oil and biomass boilers, and air source heat pumps are not economically viable for all pricing schemes and therefore not considered further. For most of these technologies, this is explained by a combination of high oil, biomass and electricity prices and low technology efficiencies. The unexpected outcome that air source heat pumps serve as economically unfavourable, can be justified by the technology COP that to a high degree determines the operational expenses. The empirical equations for the COPs, as presented in (SI.3), are highly dependent on the heat source and sink temperatures. Soil temperatures are in general higher and more uniform over the the winter heating season compared to air temperatures. Ground source heat pumps therefore offer higher COPs over the year compared to air source heat pumps for any given sink temperature. Again, this reflects purely techno-economic potential, and does not consider geological or social barriers to uptake, especially the significant disruption caused by retrofit installations (Staffell et al., 2012). Depending on the hot water to the space heat ratio, the combined technology efficiency of air-to-air heat pumps with auxiliary electricity driven boilers will lower accordingly.

The spatial distribution of the cost optimal technologies, resulting from the balanced pricing scheme, is shown in Fig. 4b. This reflects where technologies would be best placed throughout Europe if there were homogenous prices, policies and public attitudes towards each - which is not the case in reality. The difference between the present-day distribution of technologies and this figure shows the impact of non techno-economic considerations on heating choice. The “marginally better” category defines a \( \pm 5\% \) region around the intersection point of two cost curves, which defines an indecisive region where either of the technologies can provide a cost optimal option for heating. The “dominant” category defines the outside region. Each technology is therefore subjected to one of the two categories:

\[
\min_{\theta} \sum_i (\theta_i - \theta_{\text{max,i}})^2
\]
Marginaly better:

\[ \mu_{\text{Tech Shift}, x} - 0.05 < \mu_x < \mu_{\text{Tech Shift}, x} + 0.05 \]

Dominant:

\[ \mu_{\text{Tech Shift}, x} - 0.05 \geq \mu_x \]

\[ \mu_{\text{Tech Shift}, x} + 0.05 \leq \mu_x \]

where \( \mu_{\text{Tech Shift}, x} \) defines the heat load factor at the intersection point of two cost curves at a grid location, \( x \), as shown in Fig. 2. Interestingly, the historical time frame does not illustrate an expected north-south dipole, but a split for which heat pumps are dominating the coastal areas, and gas boilers the mainland areas. This result is partially explained by the KÁp폰–Geiger climate classification system for Europe and partially by the assumption of constant hot water use across Europe, as detailed in the following.

The cold oceanic climate of West Europe results naturally in a large heat consumption throughout the year that, as a result, increases the heat load factor to a value of 0.5, depending on the grid location. Ground source heat pumps serve as cost optimal in these regions, as a result of their relatively low operational expenses at high heat load factors. Air-to-air heat pumps with auxiliary electricity driven boilers serve as cost optimal in Scandinavia. This is a result of the low hot water to space heat ratio in cold climates, which in turn limits the decrease of the combined technology efficiency. Contrary to North-West Europe, the tempered Mediterranean climate results in a decreased energy consumption for space heating. The hot water to the space heat ratio increases therefore significantly, which results in increased heat load factors. As for the West European areas, technologies with low operational expenses for high heat load factors serve as economically favourable. On the other hand the increased hot water to space heat ratio, decreases the combined efficiency of the air-to-air heat pumps with auxiliary electricity driven boilers, which makes this technology economically unfavourable in temperate climates. The overall cold winters and hot summers in the East European mainland result in low heat load factors. As a result, gas boilers become economically favourable.

From this point, the paper will only discuss results that are based on this pricing scheme, which we refer to as the balanced pricing scheme.

### 3.3. End-of-century projections

Fig. 5 shows the spatial distribution of cost optimal technologies resulting from the balanced pricing scheme. These are now shown for the three end-of-century time periods defined to span the years 2080–2100 for all of the climate projections. Historical results are added for easy reference. The most striking observation to emerge is the large increase in the attractiveness of heat pumps towards continental Europe, as a result of changing climatic conditions. This is the product of many interlinked factors, considering that climate change affects both the supply and demand side simultaneously. However, the main effect is observed on the supply side, because of increasing heat pump COPs due to increasing winter temperatures. Another contributing factor might be the increasing heat load factors that emerge as a result of a fixed hot water use and a decreasing demand for space heat. For Scandinavia, the hot water to space heat ratio increases significantly due to a decreased need for space heating. As a result, the combined efficiency of air-to-air heat pumps with auxiliary electricity driven boilers decreases and therefore makes this technology economically unfavourable and out-priced by gas boilers.

### 3.4. Climate model ensemble average

Finally, in Fig. 6 we summarize the results of Fig. 5 for all climate models. The bars illustrate the climate model ensemble average of the population weighted technology distributions, for each individual country. The categories of dominance, “marginally better” and “dominant” have been merged in this figure. The error bars denote the respective 25th and 75th percentiles. The bars are ordered according to descending shares of ground source heat pumps in the RCP8.5 end-of-century time frame. It is clear that the heating infrastructure for the far west and far south countries is largely unaffected by the climate induced weather
changes. This can be seen from the largely unaffected shares of ground source heat pumps for the different climate periods. The robustness of this result is confirmed by the small uncertainties, illustrating a high agreement among climate models. Norway and Sweden make a sharp transition from air-to-air heat pumps with auxiliary electricity driven boilers to a mixture of gas boilers and ground source heat pumps, also confirmed by the high agreement among the climate models. The Baltics, including Finland make a transition from air-to-air heat pumps with auxiliary electricity driven boilers towards strong gas boiler dominance with high agreement across models. For the remaining countries, it is clear that a higher degree of climate change, suggests a transition from gas boilers to ground source heat pumps. These results come with relatively large uncertainties, which results in a fluctuating degree of technology transition among the climate models. In general, it is observed that a higher degree of global warming tends to increase the stock of heat pumps towards the mainland of Europe. On the other hand, this trend is difficult to compare between the climate projections because of different underlying assumptions from the Integrated Assessment Modelling.

4. Discussion

4.1. Current status of heat policies in Europe affecting the stock of heating technologies

This paper considers climatic changes under different projections to the year 2100 and implications for the stock of heating technologies, with a focus on gas boilers and heat pumps. The analysis presented in this study points to different zones of Europe where heat pumps or gas boilers may be more or less optimal in cost or performance terms given projected temperature increases to the end of the century. In general, ground source heat pumps are shown to be more economically optimal in western and southern Europe, whereas gas boilers are more optimal in eastern Europe and some Nordic countries.

In this discussion, we compare our numerical findings on the cost optimal decentralised heating technologies under climate change projections, with the current state of policies and technological deployment in different European countries. We find that in general, national heat policy outcomes and intentions align reasonably well with cost optimal technologies as indicated by our model. However, there are also important mismatches between cost optimal technologies and their real-world deployment. These mismatches are at least partly a product of the presence or absence and balance of policies which support or hinder the deployment of heat pumps or gas boilers. We argue that policy makers should be mindful of which technologies are most economically optimal in particular regions both currently and under projected climate change, in order to deliver cost optimal policy outcomes.
Figure 5: Spatial distributions of the cost optimal heating technologies by using the balancing pricing scheme. The historical period is defined to span the years 1970–1990. RCP2.6, RCP4.5 and RCP8.5 spans a climatic period from 2080–2100. GSHP denotes ground source heat pumps and A2A+EB denotes the hybrid technology of air-to-air heat pumps with auxiliary electricity driven boilers.
The focus of the following sections is on national-scale policies in order to understand variation between countries. Nevertheless, a number of EU heat pump support policies have been implemented and are interconnected with some national policies. For example, the EU Renewable Energy Directive in 2009 officially recognises heat pumps as a renewable energy technology (European Parliament and Council, 2009). It sets out a minimum portion of heat needed to produce renewable energy from heat pumps, equivalent to a seasonal performance factor (SPF) of over 2.88 (Gleeson and Lowe, 2013). This Directive also contributed to quality assurance in Europe by requesting that member states should introduce or have in place certification schemes for installers of heat pumps by 2012 (European Parliament and Council, 2009; Rizzi et al., 2011). In 2016, the European Commission published the first EU Heating and Cooling Strategy (EC, 2016). This strategy was endorsed by the European Parliament, which also proposed that subsidies supporting fossil fuel heating should be phased out (EHPA, 2017).

In Europe, over the last decade, the majority of heat pump sales have been for air source heat pumps and in particular reversible air-to-air heat pumps which can provide both heating and cooling (EHPA, 2014, 2017). Air source heat pumps tend to be cheaper and easier to install than ground source heat pumps, and have benefited from technical improvements, which have raised their efficiency and increased their suitability to perform effectively in a wider range of climatic conditions and building types (EHPA, 2017).

In general, ground source heat pumps are used to a greater extent in countries with colder climate zones, e.g., Nordic countries, where the heat source temperature needs to be more stable, although reversible air-to-air heat pumps still have the highest share of heat pump sales in these countries over the last ten years (EHPA, 2017). Reversible air-to-air heat pumps dominate sales in warmer, southern Mediterranean countries, where purchases of ground source heat pumps are minimal or absent. This overall pattern is by no means universal and the country-to-country distribution of ground source versus air source heat pumps is affected by various non-climate related factors affecting consumer uptake of heat pumps, including upfront costs, building regulations, availability of sufficient space for heat pump components and thermal stores, and inconvenience caused by installation (Balcombe et al., 2014; EHPA, 2017).

4.2. The role of policy instruments: southern and eastern Europe

The findings in Section 3 indicate that ground source heat pumps are favourable under the end-of-century scenario in southern European countries with a Mediterranean climate such as Spain, Portugal, Italy and Greece. However, there appears to be relatively limited policy support for heat pumps in these countries, where the majority of sales are for air-to-air heat pumps which can provide both heating and cooling (EHPA, 2014, 2017). In Portugal, there has been an absence of national incentives for heat pumps (EHPA, 2014). In Spain, reversible air-to-air heat pumps are mainly used for cooling; gas boilers are more likely to be used for space heating (EHPA, 2015). Small air-to-air heat pumps may be combined with electric heating to provide both heating and cooling in some Mediterranean coastal zones of Spain. Italy has made tax reductions available for the installation of heat pumps on the condition that high seasonal performance factors are achieved (Frontier Economics, 2013; Hanna et al., 2016). There have also been information dissemination
activities - the Gruppo Italiano Pompe di Carole is a group of manufacturers which promotes heat pumps through exhibitions, seminars and training courses (EHPA, 2015).

Most homes in Greece use diesel heating oil for space heating, while electricity, natural gas and biomass provide less than 12% of total space heating each (Papakostas et al., 2015). The installed capacity of ground source heat pumps in Greece has experienced a rapid growth in the last two decades, from 0.4 MW thermal in 1999 to 135 MW thermal in 2014 (Karytsas and Chaldezos, 2017). This is a result of several factors, including rising oil prices compared to electricity prices, higher public awareness of ground source heat pumps and legislation introducing a licensing process for installations. In recent years, the development of the ground source heat pump market has been adversely affected by the economic crisis and an inactive construction industry (Karytsas and Chaldezos, 2017).

The results show gas boilers to be optimal in eastern Europe particularly under RCP2.6 and RCP4.5, see Fig. 6. There is uneven agreement between this finding and the direction of heating policies in different eastern European countries. Following the decline of communism, many eastern and central European countries began to shift away from expensive and poorly maintained district heating systems towards individual household heating technologies (Poputoaia and Bouzarovski, 2010; Bouzarovski et al., 2015). In Poland, coal is the dominant fuel for heating, and therefore a transition to gas heating and/or heat pumps would help to improve air quality and achieve decarbonisation. 40% of Poland’s 13 million houses use individual coal boilers or furnaces for space heating (EHPA, 2015; 2017), while coal-fuelled district heating supplies space heating to approximately a further 30% of total dwellings (EHPA, 2017; Wojdyga and Chorzelski, 2017). Around two thirds of the 2 million gas boilers installed in Polish houses are used only as a supplementary heat source in cold periods (EHPA, 2015). Despite a lack of specific policy support for heat pumps from the Polish state, sales of heat pumps grew to over 20,000 per annum by 2015 (EHPA, 2015; Zimny et al., 2015). In 2014, the Polish Ministry of Economy published a Decision document, which sets out that a significant portion of heat produced from heat pumps is from renewable sources, according to a method for calculating energy consumption from renewables. Poland also has two national heat pump associations, including the Polish Organisation of Heat Pump Technology Development, which initiated EUCERT training for installers in 2014 (EHPA, 2015).

Heat pump sales in Slovakia have been constrained by the presence of a dense gas network (EHPA, 2015). There were no investment subsidies for heat pumps prior to 2015, and retrofitting heat pumps to buildings with existing gas connections is an unattractive investment; most market potential for heat pumps is in the new build sector. In the Czech Republic, where our findings reveal ground source heat pumps as economically favourable in RCP8.5 (although gas boilers are more cost optimal in the other projections), the national heat pump association issues EHPA quality labels for heat pumps sold in the country and provides training for installers to certify them with the EU-CERT heat pump label. Investment subsidies were introduced in the Czech Republic in 2014 and support ground source and air source heat pumps which achieve a minimum efficiency standard (EHPA, 2015).

4.3. The role of policy instruments: northern and western Europe

The findings in this study show that ground source heat pumps are more cost optimal in western Europe even under moderate temperature increases, but less optimal in northern Europe. In a number of western and northern European countries, a combination of policies have been effectively implemented to stimulate the take-up of heat pumps, including policies to raise technical standards, promotion and information campaigns and investment subsidies (Hanna et al., 2016). Up-front grants have been provided in Austria for consumers to switch from fossil fuel heating to heat pumps which achieve minimum performance standards based on the seasonal performance factor (Kranzl et al., 2013). In Denmark, an information campaign was followed by a subsidy scheme in 2010 to promote the replacement of dilapidated oil heaters with energy efficient heat pumps (Nyborg and Repke, 2015). A subsidy scheme in Sweden from 2006 to 2010 made up-front grants available for households to switch from oil heating to heat pumps, district heating or biomass. The entire budget for this subsidy was used up after the first year of the scheme, with heat pumps being the most popular replacement for oil heating (Ericsson, 2009; Sahni et al., 2017).

Long-term stability of policy support has been an important success factor for substantial deployment of heat pumps in countries such as Sweden, Switzerland and Austria, since this increases industry and consumer confidence (Hanna et al., 2016). Carbon and fuel taxes represent further instruments capable of incentivising the switch from fossil fuel heating to low carbon alternatives. Carbon taxes have been adopted, in particular, by northern European countries since the early 1990s, including Finland, Norway, Sweden and Denmark (Sumner et al., 2016). While the Netherlands introduced a carbon tax in 1990 (Sumner et al., 2016), gas heating remains dominant, as discussed below. Sweden has the highest carbon tax in Europe, which has been increased threefold since 1991 (World Bank, 2014). Separate taxes have also been applied on natural gas heating (although it has limited presence in Sweden) and heating oil. Energy and carbon taxes in Sweden have helped to encourage the substitution of oil boilers with heat pumps (Ericsson, 2009; Sahni et al., 2017).
Our results indicate that combined air-to-air heat pump / electric boiler systems are cost optimal in Norway and Sweden under moderate temperature increases, see Fig. 6. In Norway, electricity price rises and investment subsidies for end users have stimulated the uptake of heat pumps (Sahni et al., 2017). A subsidy programme for householders was introduced in 2003 which covered 20% of the initial costs for installing air-to-air heat pumps, although this subsidy has since ended (Bjørnstad, 2012; Sahni et al., 2017). In 2015 there were approximately 750,000 heat pumps installed in a third of all households in Norway, delivering 15 TWh of heat (Patronen et al., 2017). In Sweden, over half of heat pump sales in buildings in 2016 were for reversible air-to-air heat pumps, which can operate in conjunction with direct electric heating in existing homes, and are also used in commercial buildings (EHPA, 2014, 2017; ForsAIn et al., 2008). Swedish building regulations requiring greater energy efficiency and lower heating demands in new buildings have contributed to the increasing dominance of air-to-air heat pumps compared to ground source heat pumps since 2005 (Zimny et al., 2015).

4.4. Prospects for heat pumps: lessons from countries with natural gas heating

In European countries where natural gas contributes partially to the heat mix, there is some limited evidence to suggest that a transition from natural gas to heat pumps is taking place (Hanna et al., 2016). For example in Germany, where 54% of households are connected to the gas grid (Hanna et al., 2016), there were over 700,000 heat pumps in operation in 2015 (EHPA, 2017). This is consistent with cost optimal technologies indicated for this country in Figure 5: principally gas boilers in RCP2.6 and RCP4.5, and a mixture of heat pumps and gas boilers in RCP8.5. Heat pumps have replaced some gas boilers in Germany, but this is largely restricted to new build homes: the share of heat pumps' contribution to primary heating energy increased from 1% of new build homes in 2000 to 27% in 2017. The equivalent share for natural gas declined from over three quarters of new homes in 2000 to 39% in 2017 (AGEB, 2018).

A combination of building regulations and investment subsidies have helped to increase the proportion of heat pumps providing heating in new build houses in Germany (Sahni et al., 2017). The Market Incentive Programme (MAP) for renewable heat has made investment grants available since 2008 for the installation of ground-source and air-to-water heat pumps, linked to minimum seasonal performance factors (Sahni et al., 2017; Zimny et al., 2015). Higher investment grants are available for ground source heat pumps (given their higher up front costs) in comparison to air source heat pumps. This policy is in line with our model which shows ground source heat pumps as economically favourable in Germany under higher temperature increases, see Fig. 6. While MAP also offers higher grants for heat pumps installed in existing homes compared to new builds, the share of heat pump sales to the retrofit sector has still been decreasing in recent years. This illustrates that increasing the portion of renewable heat in the existing housing stock continues to be a key priority (Sahni et al., 2017).

Policy support aimed at achieving a transition from gas boilers to heat pumps is challenging in countries such as the Netherlands and the UK where gas heating is dominant. Both countries have made very limited progress in substituting gas heating for lower carbon alternatives. Our numerical findings show that ground source heat pumps are a definitively cost-optimal solution in the UK, see Fig. 8. However, the UK has a low uptake of heat pumps compared to many northern and western European countries. In part this is due to path dependent developments that led to the emergence of gas central heating as an affordable, convenient and familiar technology for UK household consumers, which provides high levels of thermal comfort (Gross and Hanna, 2019). There is also a lack of continuous, coordinated policies on technical standards and promotion of heat pumps in the UK, leading to poor consumer awareness and low confidence in the technology (Hanna et al., 2016, 2017). A subsidy programme for householders was introduced in 2003 which covered 20% of the initial costs for installing air-to-air heat pumps, although this subsidy has since ended (Bjørnstad, 2012; Sahni et al., 2017). In 2015 there were approximately 750,000 heat pumps installed in a third of all households in Norway, delivering 15 TWh of heat (Patronen et al., 2017). In Sweden, over half of heat pump sales in buildings in 2016 were for reversible air-to-air heat pumps, which can operate in conjunction with direct electric heating in existing homes, and are also used in commercial buildings (EHPA, 2014, 2017; ForsAIn et al., 2008). Swedish building regulations requiring greater energy efficiency and lower heating demands in new buildings have contributed to the increasing dominance of air-to-air heat pumps compared to ground source heat pumps since 2005 (Zimny et al., 2015).

In contrast to the UK, the Netherlands has ambitious long-term policy targets to phase out the contribution of natural gas to its heat supply. Fig. 6 suggests that in the Netherlands, heat pumps are cost optimal under climate change scenarios. On other other hand, approximately 85% of dwellings in the Netherlands use natural gas for space heating (EHPA, 2017). The dominance of natural gas as a heating source was cemented after the discovery of extensive local gas reserves in the Groningen gas field in 1959 (Sahni et al., 2017). Earthquakes in 2012 caused by gas extraction from the Groningen gas field led to public protests and the government therefore decided to reduce gas production (Honore, 2017). Depletion of the gas field is also expected, so that the Netherlands is likely to become a net importer of natural gas from 2030 to 2035 (ECN, 2016). Energy security concerns over the potential future need to import Russian gas, in addition to climate policy, have also motivated long-term national goals to seek low carbon alternatives to natural gas (Sahni et al., 2017).

The 2050 Dutch Energy Agenda implies that most of the country's 6 million homes currently heated with natural gas will need to be disconnected from gas supply by 2050 (EHPA, 2017; Ministry of Economic Affairs, 2017). This is based on a long-term target to reduce CO₂ emissions from the residential and commercial heating sector by 80-95%
by 2050 [Ministry of Economic Affairs, 2017]. The Dutch government has indicated that electrification could be central to plans to phase out natural gas heating, and have stated that energy efficiency, heat pumps and district heating would be three key elements to a low emissions building sector. Strategic decisions will need to be made about the future of the existing gas grid, in terms of whether it could be utilised as a carrier for alternatives to gas such as hydrogen and green gas, or whether it might need to be decommissioned and replaced [Sahni et al., 2017].

4.5. Study limitations

The analyses of this paper are subjected to at least three major limitations. The main limitation deals with the assumption of constant fuel and technology related prices across regions and time. As previously stated, this is a simple approximation which leads to an unrepresentative picture of the real world. However, this is necessary for performing an objective study of the influence of climate change, separate from the political and personal drivers, and thus answer the research questions of this work.

Secondly, the optimization was limited to only consider cost constraints. Other important subjects to constrain are the different projections of RCP related CO₂-emissions. This limitation suggests that results belonging to otherwise low or negative CO₂-emission scenarios as, e.g., for the end-of-century RCP2.6 pathway, should be interpreted with caution. An in-depth analysis of the cost optimal design decisions, including CO₂-emission constraints, would additionally require a coupling to the electricity sector. Such an extensive work require a study on its own.

Then, this study is limited to only consider decentralised heating technologies, such as small scale fossil fueled boilers or heat pumps. Large-scale centralised technologies, such as district heating, are also important to consider, but these are subject to different economic and political considerations, and thus cannot be thought of as a like-for-like replacement for existing heating systems in all countries of Europe. This study can be extended to include these by assigning heat transportation to densely populated areas as, e.g., cities or suburbs.

A fourth limitation is the relative low number of climate models that are used to acquire the results. To the best of the authors’ knowledge no other climate affected data exists with higher data granularity. If applicable, an identical analysis can be performed by including more climate data.

5. Conclusions and policy implications

This study set out to determine the cost optimal design decision for decentralized heating in European homes. With fixed costs, we let the climate determine the most economical heating technologies over a timespan of 20 years in a historical period defined to span the years 1970–1990 and for three end-of-century time periods defined to span the years 2080–2100. Bias-adjusted high resolution temperature data from 9 combinations of 5 global climate models downscaled by 4 regional climate models under the EURO-CORDEX project, have been adapted to model the heat demand and supply side. Due to transparency issues on actual heat consumption data, we use the theory of heating degree-days as a proxy for the variations in the day-to-day heat demand over 20 years. Notwithstanding the impact of policies or consumer preferences, we have shown that the climate holds a vital role in the cost optimal design of decentralized heating infrastructures in Europe.

We found that climate change introduces a decreasing demand for space heating. This demand is estimated to decrease by approximately 42%, 24% and 16% in 2100 for the RCP8.5, RCP4.5 and RCP2.6 climate projections, respectively, compared to the corresponding value in 1970. Climate change and cost-optimisation suggest a shift in the decentralized heating infrastructure from gas boilers to ground source heat pumps, for a majority of the European countries. This is driven by the two main factors. Firstly, climate change will increase ambient temperatures and thus improve the efficiency of heat pumps. Secondly, the diminishing need for space heating means the year-round demand for hot water becomes more important, increasing the utilisation of heating technologies through the year, thus benefiting heat pumps with their high upfront, but low ongoing, costs. For many countries this is in correspondence with aggressive policies on increasing penetrations of heat pumps. The far west and far south European countries are subjected to a high heat load factor, for which ground source heat pumps serve as economically favourable. As for the UK, there is a comparatively low uptake of heat pumps, where key barriers to further uptake are a lack of policy continuity and co-ordination and low consumer confidence and awareness. On the other hand, the Netherlands is developing ambitious long-term policies to increase the penetration of heat pumps. Portugal, Spain, Italy and Greece lack policy support for heat pumps, where the majority of sales are for reversible heat pumps which provide both heating and cooling. Aggressive policies for substantial deployment of heat pumps are evident in countries such as Sweden, Switzerland and Austria. For Switzerland, this is in correspondence with a higher penetration of ground source heat pumps at the end-of-century time frames in all RCPs. Climate conditions in Sweden and Austria lead to a marginal increase in the penetration of ground source heat pumps, while gas fired boilers take the largest technology share. High carbon taxes in Finland, Norway, Sweden and Denmark are used to pursue a decrease in the use of fossil fuel heating technologies. Only for Denmark do the climate conditions
align with these policies. The continental climate across eastern Europe leads to a robust choice of gas boilers as the cost beneficial choice of heating in all RCPs.

We recognise that national heating policies aimed at decarbonisation should be designed with respect to a portfolio of technologies, including those not featured in this analysis, for example district heating or hydrogen. Our findings should therefore not be treated as a policy prescription, and moreover the analysis focuses on the impact of climate change on technology costs and excludes a calculation of carbon intensity. This carries the consequence that under higher temperature increases, gas heating is indicated as a more optimal technology in a country such as Sweden, which has promoted deep decarbonisation of its heating sector and where the heat pump market is mature. Meeting the 1.5 °C target under the Paris Agreement implies a significantly reduced or minimal role for natural gas in the energy mix. Gas heating could have a role as a bridging technology to low carbon heating for example through the use of hybrid heat pumps, whereby a heat pump operates in parallel with a gas boiler.

This study underlines the benefit of accelerating heat pump support policies in countries such as the UK and Netherlands which depend largely on natural gas heating. These countries can learn from the experience in northern and western Europe, where multiple policies have been combined over several decades to raise levels of heat pump deployment, including technical standards, promotion and quality assurance, up front investment subsidies, and carbon and energy taxes. While our study points to heat pumps being more cost optimal in western Europe under projected climate change, heat pump markets in countries such as Austria, Switzerland, France and Germany are actually less mature than in northern Europe. Gas boilers are also identified as being more optimal in eastern Europe, where in some cases (such as Poland) there may be potential to displace more carbon intensive coal heating with natural gas heating. One of the most surprising outcomes of the study is that ground source heat pumps are identified as suitable solutions in southern Mediterranean countries. This points to a need for more coordinated policies in these countries to support heat pumps as a low carbon alternative for heating in buildings, given the current predominance of reversible heat pumps which are also used for air conditioning, and have emerged largely as a market development in the absence of specific policy assistance.

6. Nomenclature

| Subscripts | Explanatory text |
|------------|------------------|
| x          | Grid cell        |
| Δ          | Time period      |
| θ          | Technology       |

| Variables | Explanatory text |
|-----------|------------------|
| t         | time             |
| L<sub>Total</sub> | Total residential heat demand |
| L<sub>Space Heat</sub> | Space heat demand |
| L<sub>Hot Water</sub> | Hot water demand |
| P<sub>Total</sub> | Total output of heat |
| P<sub>Space Heat</sub> | Output of space heat |
| p<sub>Hot Water</sub> | Output of hot water |
| T<sub>0</sub> | Heating threshold temperature |
| T<sub>x</sub>(t) | Grided ambient air temperature |
| T<sub>x</sub> | Gridded design temperature |
| µ<sub>x</sub> | Gridded heat load factor |
| HDD<sub>x</sub><sup>space</sup>(t) | Grided heating degree-days as a proxy for space heating |
| DHW | Heating degree-days as a proxy for hot water demand |
| HDD<sub>x</sub><sup>Δ</sup> | Grided heating degree-days as a proxy for the combined space heating and hot water over a time period |
| X<sub>CAP</sub> | Fixed capacity expense |
| X<sub>FM</sub> | Fixed yearly maintenance expense and auxiliary electricity use |
| X<sub>OP</sub> | Grided operational expense |
| X<sub>TOT</sub> | Grided yearly accumulated expense |
| X<sub>1</sub> | Fixed installation expense |
| X<sub>fuel</sub> | Fixed fuel price |
| η<sub>x</sub> | Technology efficiency |
| κ<sub>g</sub> | Installed technology capacity |
| COP<sub>x</sub> | Gridded coefficient of performance |
| T<sub>source</sub> | Temperature of hot reservoir |
| T<sub>sink</sub> | Temperature to be met by technology |

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Author Contributions
IS, GBA and SK designed the study. IS and GBA furthermore supervised the entire study. SK administrated the project, performed the scientific investigation, wrote the majority of the paper apart from Section 4, performed data validation and visualization. SK wrote the supplementary information. RH produced Section 4 on the political aspects in collaboration with RG and drawing on research undertaken by RH and RG for UKERC.

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Competing financial interests
The authors declare no competing financial interests.

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