# Justice in decarbonizing heating systems consistent with the Paris Climate Agreement: subsidy balance between landlords and tenants at the multi-apartment building level

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**Abstract**

*Keywords:*

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## Nomenclature

| Type | Description | Unit |
|---|---|---|
| Set and index | | |
| $y \in \mathcal{Y} = \{1, \ldots, Y\}$ | Years, index by $y$ | |
| $m \in \mathcal{M} = \{1, \ldots, M\}$ | Months, index by $m$ | |
| Decision variables | | |
| $inv_{grant}$ | Landlord's investment grants | EUR |
| $sub_{heat,y,m}$ | Tenant's heating costs subsidy in $y$ and $m$ | EUR |
| $q_{init,y,m}$ | Heat demand supplied by the initial heating system | kWh |
| $q_{alt,y,m}$ | Heat demand supplied by the heating system alternative | kWh |
| $\Pi_{alt}$ | Newly installed heating system alternative capacity | kW |
| $r_{y,m}$ | Rent charge adjustment in $y$ and $m$ | EUR/m$^2$ |
| Parameters | | |
| $n_{ten}$ | Number of tenants | 1 |
| $i$ | Interest rate | % |
| $q_{load,y,m}$ | Total heat demand in $y$ and $m$ | kWh |
| $\alpha_m$ | Ratio between total heat demand and peak load in $m$ | 1 |
| $c_{alt,hs}$ | Specific heating system alternative investment costs | EUR/kW |
| $c_{alt,con}$ | Heating system alternative construction costs | EUR |
| $\bar{r}$ | Initial rent price | EUR/m$^2$ |
| $a$ | Rented area per tenant | m$^2$ |
| $p_{init,y}$ | Energy price fueling the initial heating system | EUR/kWh |
| $p_{alt,y,m}$ | Energy price fueling the heating system alternative | EUR/kWh |

## 1. Introduction

- Green deal: climate neutrality in Europe until 2050
- Fit for 55: measures until 2030 ensuring a $CO_2$ reduction of at least 55 %
- Fair and sustainable future for all citizens (leaving no one left behind)
- Special initial conditions in the heating sector: (i) high shares of fossil fuels, and (ii) ownership structure in urban areas
- Natural gas face out

- Renewable energy: historical development of PV systems: investment grants and feed-in tariffs

Against this background ⋯

## 2. State-of-the-art and progress beyond

Focus here on renewable technologies in the heating sector; without energy communities; sharing renewable energy generation

### *2.1. Local renewable heating and cooling systems*

- options for the sustainable provision of heating and cooling demand: [1], [2]
- using network infrastructure (district heating and cooling) $\longrightarrow$ fueling energy mix: [3]: primary energy sources
- local on-site generation

### *2.2. Justice in energy systems: fair and socially balanced sustainable energy transition*

the three energy justice tenets (distributive, recognitional and procedural)
A review Energy justice - equality [4] Sehr schwer aber zu generalisieren weil geopgraphische und lokale Apsekte berücksichtigt werden sollten Energy justice in the transition to low carbon energy systems: Exploring key themes in interdisciplinary research: non-western Westliche Welt nicht auf die ganze Welt schließen (inklusive nicht entwickelte Länder) [5] case study von Mozambik
Harnessing social innovation for energy justice: A business model perspective: Energy justice may be operationalised through market principles but not through the market alone [6]
We examine two local energy transitions from an energy justice perspective [7] show that energy justice and transitions frameworks can be combined [8]
Recently 2021, do renewable energy communities deliver energy justice? Exploring insights from 71 European cases [9]

- "We aim to show how when low-carbon transitions unfold, deeper injustices related to equity, distribution, and fairness invariably arise" [10]
- energy justice in household low carbon innovations; low carbon heating; collection of opportunities but also threats; who wins and who loses; difficulties to people without the capital, or who do not own their own home. ([11])

Wir müssen speziell auf low-income households und renters schauen: Energy efficiency and energy justice for U.S. low-income households: An analysis of multifaceted challenges and potential: Low-income households and renters have fewer energy efficiency appliances; need tailored assistance [12]
low-income haben auch höheren residential heating energy use intensity, an energy efficiency proxy [13]
"They are grinding us into the ground" – The lived experience of (in)energy justice amongst low-income older households: Energy justice was experienced

on four separately distinguishable levels of social relationships: intra-households, household-energy retailer relations, immediate social networks and wider social relations. simple retrofits improved householder heating capabilities [14]

### *2.3. Trade-offs between overnight investments and net present value decisions*

### *2.4. Progress beyond state-of-the-art*

- heating system change and sustainable heat supply takes place
- analytical and modeling framework; justice; qualitative analysis
- Trade-off analysis between governance, landlords, and tenants $\longrightarrow$ required incentives
- Sensitivity analysis helps us to bettter understand the different ownership structure and its influence on the sustainable energy transition

## 3. Materials and methods

This section explains the methodology and the optimization model developed in this work. The section starts with an introduction and overview of the model in Section 3.1, followed by a detailed description of the mathematical formulation in Section 3.2. The case study and scenario description is given in Section 3.3. The model validation is described in Section 3.4 and the open-source programming environment in Section 3.5

### *3.1. Introduction and model overview*

This section provides an comprehensive overview of the proposed model. In general, three agents with the following characteristics are considered:

*Governance.* The governance's main objective is to decarbonizing the residential heating sector. Therefore, the intention is to trigger a heating system change to a sustainable alternative on the multi-apartment building level by financial support for both landlord and tenants. The avowed aim is to find a cost-minimal and socially balanced solution. The financial support can be realized by an investment grant (paid directly from the governance) or rent-charge-related revenues (from the tenants and refunded by the governance) for the landlord and heating costs subsidy payments for the tenants.

*Landlord.* is the owner of the multi-apartment building and provides the heating system for the tenants, and is profit-oriented. Thus, a heating system change toward a sustainable alternative only is realized in case of the economic viability of the investment. In this context, the landlord can achieve profitability of the alternative heating system by receiving an investment grant (to reduce the overnight investment costs from the governance) and a rent-charge-related revenue cash flow (from the tenants).

*Tenant.* rents a dwelling within the multi-apartment building from the landlord and has rent-related and energy-related spendings. He cannot change the heating system on his authority but depends on the landlord's willingness to realize a low-emission sustainable alternative. Especially in the case of the existing heating system, its costs are directly subject to a higher pricing of $CO_2$ emissions. Nevertheless, the tenant aims to limit total costs in case of a heating system change at the level of the initial condition.

Figure 1 shows a sketch illustrating the interrelations between the governance, the landlord, and the tenants. The governance can support the landlord financially by investment grants and by the allowance of rent charge adjustments. At the same time, tenants are supported by a heating costs subsidy payment. The gray bar in the middle indicates that these financial benefits need to be socially balanced and overcome the differences in ownership within the multi-apartment building. The rent or rent charge adjustment is the direct financial exchange between the landlord and the tenant.

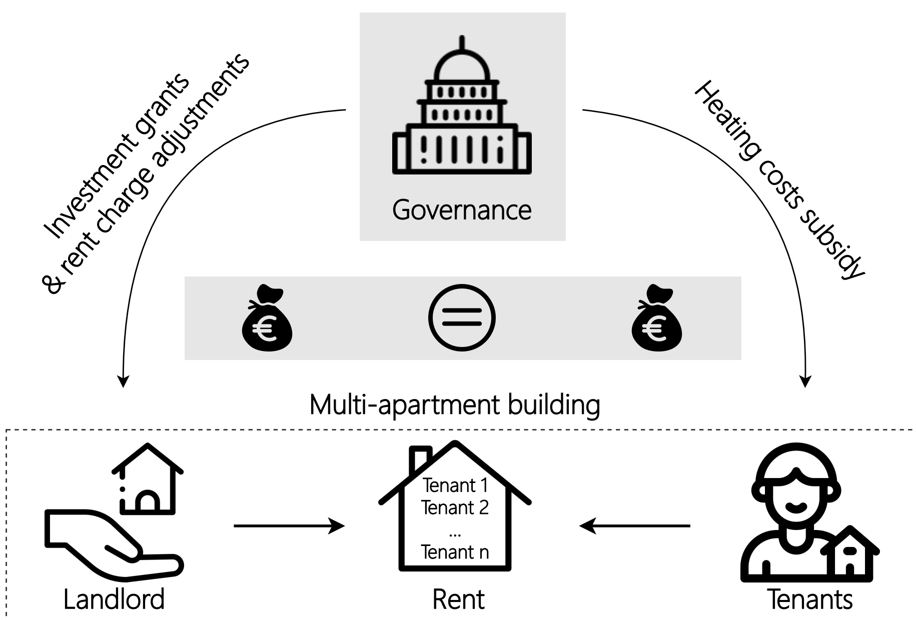



Figure 1: Sketch of the model illustrating the iterrelations between the governance, landlord, and tenants. Financial support from the governance is socially balanced at the multi-apartment building.

### 3.2. Mathematical formulation of the model

This section explains the mathematical formulation of the optimization model in detail. First, the objective function is defined. Then, a detailed explanation of the model's constraints is given.

#### 3.2.1. Model's objective function

The objective function of the model is to minimize governance's total costs, including investment grants and subsidy payments[1]. Therefore, the objective function can be written as follows:

$$\min_{x} \Psi + \sum_{y} \sum_{m} \frac{n}{(1+i_g)^y} \cdot \Omega_{y,m} \tag{1}$$

where $\Psi$ is the investment grant paid tothe landlord and $\Omega_{y,m}$ the heating costs subsidy payment paid to a single tenant in year $y$ and month $m$. In addition, $n$ is the number of tenants[2] and $i_g$ the governance's interest rate. The model's decision variables are included in the decision variable vector $x$. We refer to the nomenclature at the beginning of the paper containing a list of all decision variables.

#### 3.2.2. Model's constraints

Equation 2 describes the load satisfaction of the total heat demand within the multi-apartment building using the alternative heating system in each time step (year and month)

$$n \cdot d_{y,m} \leq q_{y,m} \quad : \forall y, m \tag{2}$$

where $d_{y,m}$ is the total heat demand of a tenant's dwelling and $q_{y,m}$ the heat demand covered by the alternative heating system in $y$ and $m$. Building on this, Equation 3 defines the minimum required newly installed capacity of the

[1] This corresponds to the maximization of the governance's net present value.
[2] It is assumed that the multi-apartment building consists of $n$ equal tenants.

heating system alternative

$$\alpha_m \cdot q_{y,m} \leq \pi \quad : \forall y, m \tag{3}$$

where $\alpha_m$ is the load factor transforming the monthly amount of heat demand to the corresponding peak demand. Equation 4 defines the landlord's overnight investment costs ($\zeta$)

$$\zeta = \pi \cdot c_{alt} + n \cdot c_{con} - \Psi \tag{4}$$

where $c_{alt}$ is the specific investment costs of the heating system alternative and $c_{con}$ the construction costs of an dwelling. Equation 5 defines the upper bound for the investment grant

$$\Psi \leq \hat{d} + n \cdot c_{con} \tag{5}$$

where $\hat{d}$ is the peak value of the heat demand. Equation 6 defines the rent-related revenues of the landlord ($\lambda_{y,m}$)

$$\lambda_{y,m} = a \cdot n \cdot (\bar{r} + r_{y,m}) \quad : \forall y, m \tag{6}$$

where $\bar{r}$ is the initial rent price, $r_{y,m}$ the rent charge adjustment associated with the heating system change in $y$ and $m$ and $a$ the area of a tenant's dwelling. Equation 7 sets the landlord's net present value of the alternative heating system investment equal to zero

$$-\zeta + \sum_y \sum_m \frac{1}{(1+i_l)^y} \cdot \lambda_{y,m} = 0 \tag{7}$$

where $i_l$ is the landlord's interest rate. Equation 8 defines the initial annual spendings of all tenants ($\kappa_y$) using the existing heating system

$$\kappa_y = n \cdot (\bar{r} \cdot a + \sum_m q_{load,y,m} \cdot p_{init,y,m}) \quad : y = y_0 \tag{8}$$

where $p_{init,y,m}$ is the price of the conventional fuel initially supplying the heat demand in $y$ and $m$. Building on this, Equation 9 sets the tenants' total spendings ($K_{init}$)

$$K_{init} = -\sum_y \frac{1}{(1+i_t)^y} \cdot \kappa_{y_0} \tag{9}$$

where $\sigma_{y_0}$ represents the initial tenants' spendings from Equation 8 above and $i_t$ the tenant's interest rate. Equation 10 defines the total spendings of all tenants ($K_{alt}$) realizing the sustainable heating system alternative

$$K_{alt} = -\sum_y \sum_m \frac{n}{(1+i_t)^y} \left(a \cdot (\bar{r} + r_{y,m}) + q_{y,m} \cdot p_{alt,y,m} - \Omega_{y,m}\right) \tag{10}$$

and Equation 11 defines constant remaining spendings (i.e., economic viability) for the tenants in case of the heating system change.

$$K_{alt} = K_{init} \tag{11}$$

Equation 12 defines constant heat costs subsidy payments and Equation 13 constant total rent price for a tenant in $y$.

$$\Omega_{y,m} = \Omega_{y,m-1} \quad : y \tag{12}$$

$$\bar{r} + r_{y,m} = \bar{r} + r_{y,m-1} \quad : y \tag{13}$$

Equation 14 allows rent charge adjustment by the landlord only every two years and Equation 15 and 16 set a upper bound to the rent charge adjustment

$$\bar{r} + r_{y,m} = \bar{r} + r_{y-1,m} \quad : \forall y \backslash \{y_0\}, m \text{ if } y \bmod 2 = 0 \tag{14}$$

$$\bar{r} + r_{y,m} \leq \rho \cdot \bar{r} \quad : \forall y \in y_0 \tag{15}$$

$$\bar{r} + r_{y,m} \leq \rho \cdot \bar{r} + r_{y-1,m} \quad : \forall y \backslash \{y_0\} \tag{16}$$

by introducing $\rho$, as the rent charge adjustment upper bound. Equation 17 defines the financial support parity between the landlord and all tenants at the multi-apartment building level from the governance's perspective

$$\underbrace{\Psi + n \cdot \sum_y \sum_m \frac{r_{y,m}}{(1+i_g)^y}}_{\text{landlord's financial support}} = \underbrace{n \cdot \sum_y \sum_m \frac{\Omega_{y,m}}{(1+i_g)^y}}_{\text{tenants' financial support}} \tag{17}$$

### *3.3. Empirical settings and case study description*

18.10.2021

#### *3.3.1. Description of the multi-apartment building*

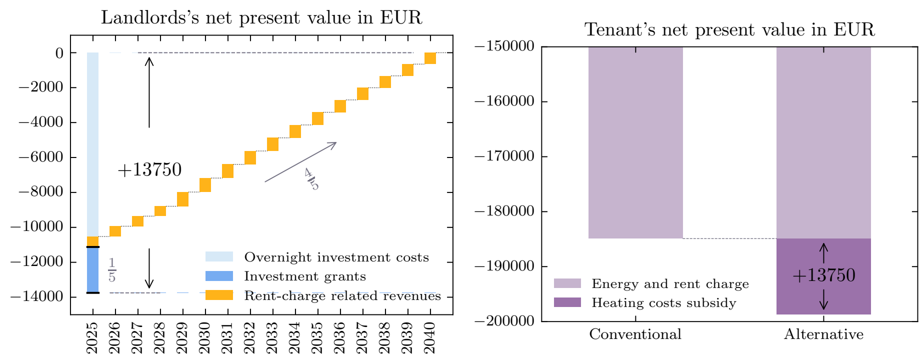
| Scenario | Climat target | Heat pump | District heating |
|---|---|---|---|
| Low $CO_2$ price development (LD) | none | ✓ | ✓ |
| *Gradual Development* (GD) | 2.0 C | ✓ | ✓ |
| *Societal Commitment* (SC) | 1.5 C | ✓ | - |
| *Directed Transition* (DT) | 1.5 C | - | ✓ |

Table 1

#### *3.3.2. Scenario description*

### *3.4. Validation of the model*

This section aims to test the presented model and its functionalities. However, a model validation using existing empirical data can not be applied in this case. There is simply a lack of comparable data from real cases. Therefore, a small illustrative case study is chosen to demonstrate the main functionalities and to verify the model. We assume a single landlord and tenant in a representative single-family household implementing a heat pump. It is assumed that the landlord's and tenant's interest rate is equal (3 %). A detailed description of the empirical settings can be found in Appendix A. Figure 2 shows the landlord's (a) and tenant's (b) net present value.




(a) Development of landlord's net present value

(b) Comparison of tenant's net present value

Figure 2: Landlord's and tenant's net present value and equal financial support. The landlord reaches a net present value equal to zero in 2040 resulting from an investment grant and rent-charge related revenues. The tenant's net present value remains constant compared to the conventional heating system resulting from heating costs subsidy payments.

Both agents receive equal financial support with a total of 13 750 EUR. One finfth of the landlord's support is paid as an investment grant and four-fifths as rent-charge related revenues. The tenant receives a heating costs subsidy. The level of financial support results exactly in (i) a landlord's net present value equal to zero within the time horizon of 15 years (see Figure 2a) and (ii) a constant remaining net present value of tenant compared to the conventional (existing) heating system (including the initial rent charge) (see Figure 2b).

### *3.5. Open-source programming environment and data format*

The developed optimization model is implemented in Python using the modeling framework Pyomo [15]. It is solved with the solver Gurobi version 9.0.3. We use for data analysis the common data format template developed by the Integrated Assessment Modeling Consortium (IAMC) using the open-source Python package pyam [16]. Note that all materials used in this study are disclosed as part of the publication at GitHub [3]. We refer to the repository for the codebase, data collection, and further information.

## 4. Results and discussion

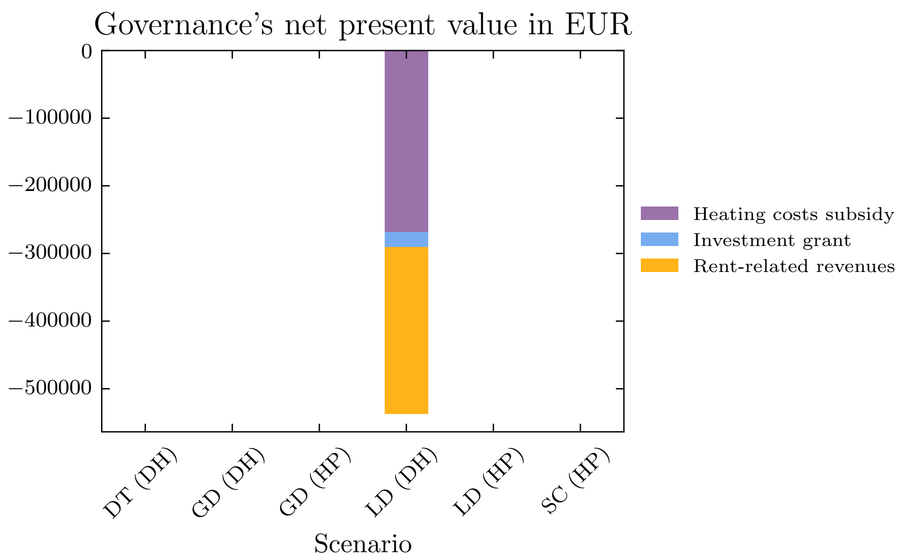



Figure 3

## 5. Sensitivity analysis

## 6. Conclusions and recommendations

sozial ausgewogenen bedeutet hier, dass kosten für den mieter dürfen nicht stark ansteigen investitionsförderung und dem mieter erlauben höhere mieten zu verlangen aufgrund von renewable enery systems

viel mehr muss der staat hier geld in die hand nehmen um profitability sicherzustellen

Socially-balanced heating system transition in urban areas (landlords and tenants) hilft uns CO2 nicht als Trigger anders als in übrigen analysen

[3] https://github.com/sebastianzwickl

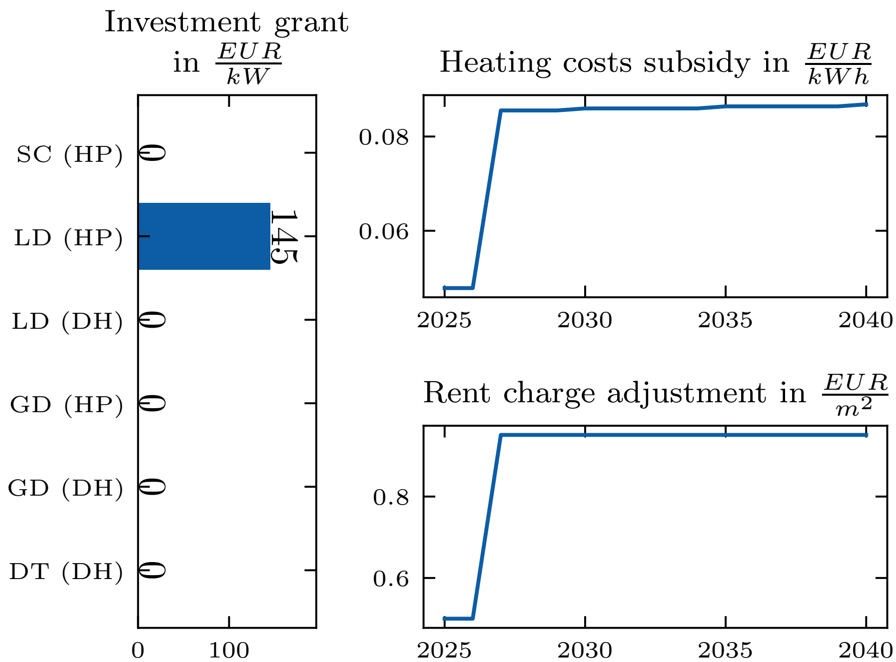



Figure 4

co2 nur als trigger wenn man die kosten auf des co2 preises auf beide akteure aufteilt und nicht nur auf den mieter packt, dann kann co2 preis trigger sein, dass hat die sensitivität analyse gezeigt

zeigt, dass wir uns nicht nur alleine auf den co2 verlassen dürfen, im wärmesektor muss geld in die hand genommen werden.

Future work: investment grants depend on buidling renovation

**Declaration of interests**

None.

**Declaration of Competing Interest**

The authors report no declarations of interest.

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## Appendix A. Empirical settings of the small case example

| Variable | Unit | Value |
|---|---|---|
| Heat pump investment costs | EUR/kW | 1000 |
| Construction costs | EUR | 1000 |
| Initial rent price | EUR/$m^2$ | 10 |
| Rented area | $m^2$ | 100 |
| Total heat demand | kWh | 22 000 |
| Peak heat demand | kW | 13 |
| $CO_2$ price (2025-2034) | EUR/t$CO_2$ | 50 |
| $CO_2$ price (2035-2040) | EUR/t$CO_2$ | 100 |
| Natural gas price | EUR/kWh | 0.05 |
| Electricty price | EUR/kWh | 0.2 |
| Specific emissions of electricity | kg$CO_2$/kWh | 0.130 |

Table A.1: Data assumptions of the small case example