Decarbonization pathways
European economy

EU electrification and decarbonization scenario modelling
Synthesis of key findings
May 2018

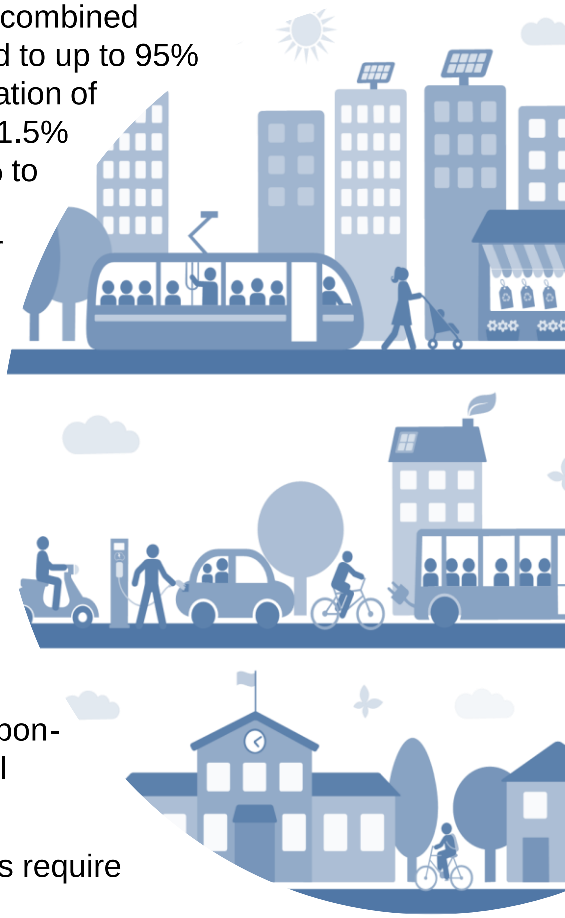
Introduction and methodology

Why this study?

- Delivering on the Paris Agreement requires an increase of the EU's contribution to the fight against climate change
- The European electricity sector believes that cost-effective decarbonization is crucial if Europe is to remain competitive in the global market place, and we are committed to leading this transition
- In its new vision published earlier this year, the power sector made a pledge to become carbon neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies, and sees electrification as a way to accelerate decarbonization in other sectors of the economy in a cost-effective way
- With a view to achieving this vision and to making a meaningful contribution to the EU's climate ambition, eurelectric has developed a set of EU decarbonization and electrification scenarios towards 2050 for the main energy-using sectors
- The power sector will support these efforts and the second phase of this project will analyse in detail the decarbonization pathways of the power sector and their associated costs, driving towards carbon-neutrality well before 2050, further supporting the results obtained during phase one

Key messages

- The potential for electrification is substantial across energy-using sectors and will underpin deep decarbonisation of the economy. Deep decarbonization is by implication an electrification journey. Electrification is the most direct, effective and efficient way of reaching the decarbonization objectives
- Significant changes, such as fast removal of barriers to adoption of electric technologies combined with technological progress, ambitious policies changes and global coordination, can lead to up to 95% emissions reduction by 2050. Scenarios are underpinned by 38% to 60% direct electrification of the economy (as a share of total final energy consumption) which is achievable with a 1-1.5% year on year growth of the EU direct electricity consumption, while TFC reduces by 0.6% to 1.3% each year. The first driver is climate protection which also brings societal and environmental benefits stemming from electrification such as noise reduction or better air quality. Further technology breakthroughs could lead to even higher electrification rates
- Electrification, both direct and indirect, has a critical role to play for achieving multiple EU policy targets. Energy efficiency measures and other carbon-neutral solutions will complement electrification to deliver on these ambitions
  - Electricity will play a leading role in transport where up to 63% of total final energy consumption will be electric in our most ambitious scenario
  - In buildings, energy efficiency is a key driver of emission reductions; district heating and cooling are expected to keep on playing critical roles in some geographies, while 45% to 63% of buildings energy consumption could be electric in 2050 driven by adoption of electric heat pumps
  - A series of industrial processes can technically be electrified with up to 50% direct electrification in 2050 and the relative competitiveness of electricity against other carbon-neutral fuels will be the critical driver for this shift. Hydrogen and other carbon-neutral alternatives will also play a role and drive indirect electrification
- Different starting points in terms of energy mix, economic situation and industrial activities require different pathways and level of efforts across EU countries



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Our analysis builds on a granular multi-factor approach

The study is based on a multi factor approach including:

- Total cost of ownership in the short to medium term,
- Relative cost competitiveness of decarbonization technologies,
- Market developments,
- Technological developments,
- Regulatory aspects at national and EU level,
- Political ambition,
- Societal benefits and barriers/incentives on the consumer side

The analysis focuses on the role of electricity to accelerate decarbonization in transport, buildings and industry, with a view to:

Advancing Europe's competitiveness, economic growth and job creation, esp. in the industry sector, through efficient and reliable energy solutions

Promoting a sustainable and healthy society for European citizens, through carbon neutral energy and enhanced cities' air quality, esp. through electrified transportation

Securing long-term affordable, reliable and flexible energy supply to key European sectors and countries

In addition to electrification, decarbonization strategies will always include a combination of multiple levers, technologies and solutions, e.g.,

Energy efficiency,
Green gas,
Hydrogen,
Additional use of RES,
CCS for industrial processes

Total final energy consumption and electricity demand are computed based on granular inputs and modelling at the country and sub-sector level (>50 sub-sectors considered across the 4 sectors prioritized: power, transport, buildings, industry)

Outputs from this multi-factor analysis were syndicated through a very comprehensive stakeholder engagement with all eurelectric members as well as with external stakeholders through:

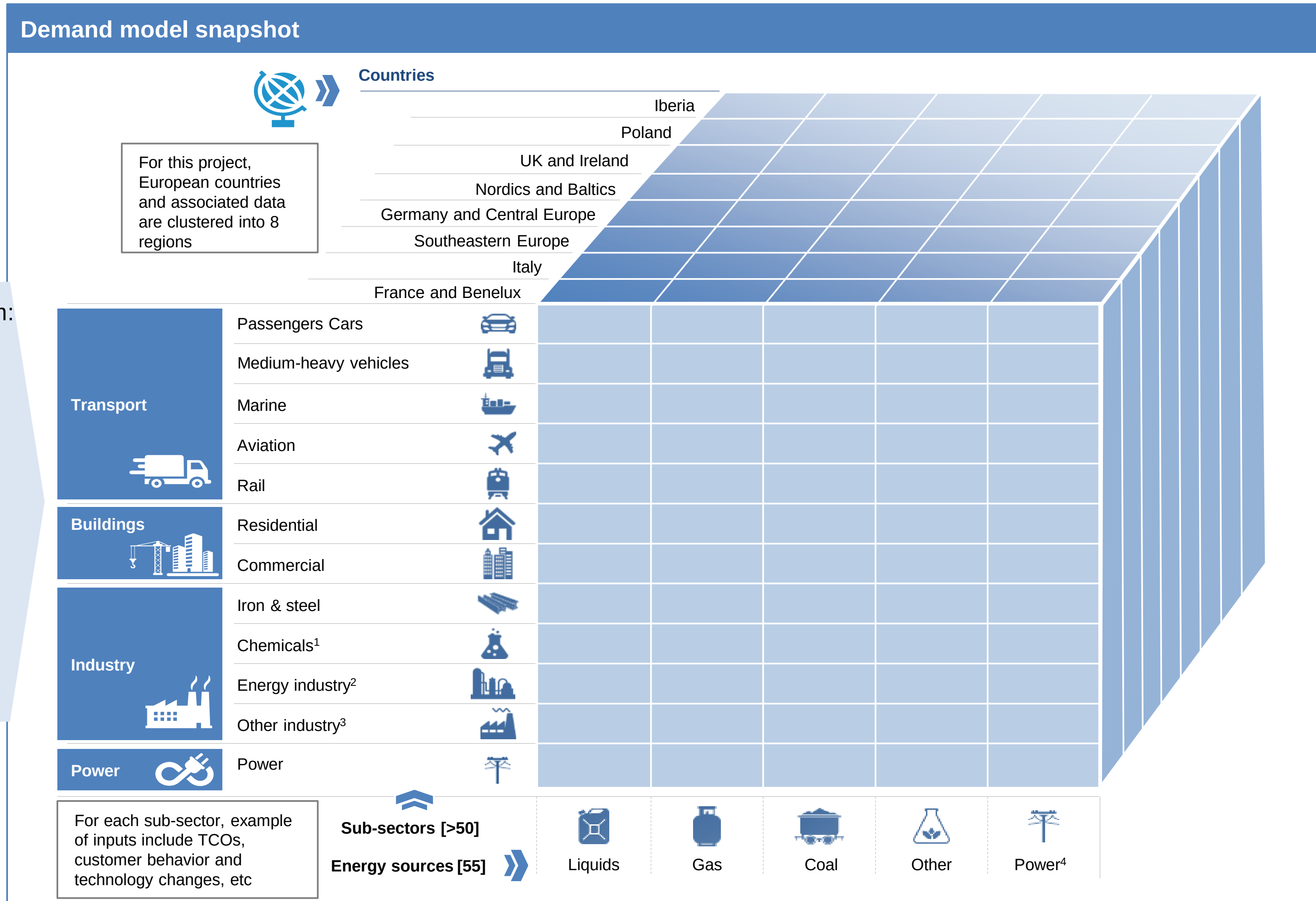
Workshops and discussions with relevant stakeholders by sector and industry

Planned event in Brussels to discuss the key findings of the study

Detailed inputs collected bottom-up contribute to the robustness of the demand forecasts of energy and electricity

Bottom-up inputs from:

- National associations and their members
- Eurelectric committees and working groups
- External stakeholders from different perspectives: NGOs, industry associations, etc

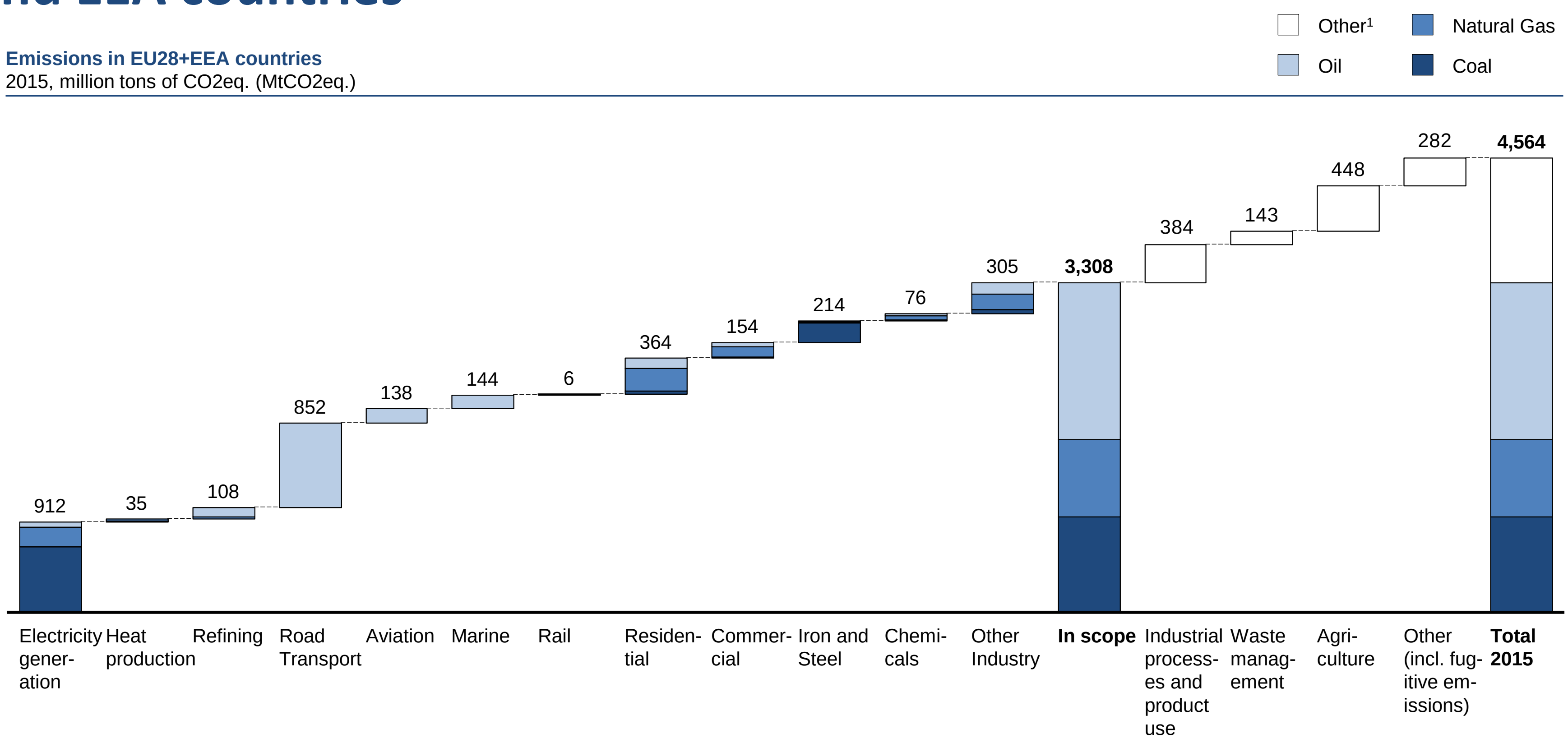


1. Organic, Ammonia, Other; 2. Oil & Gas, Own use, Other 3. Construction, Food & Agriculture, Manufacturing, Materials, Mining, Non-Energy, Other; 4. Separate global granular model

SOURCE: Energy Insights, a McKinsey Solution – Global Energy Perspective

Our project focuses on all energy related emissions for all EU28 and EEA countries

Emissions in EU28+EEA countries
2015, million tons of CO2eq. (MtCO2eq.)



Energy related emissions

Non-energy related emissions

	Energy	Transport[2]	Buildings	Industry	Non-energy related emissions
Share of emissions	23%	25%	11%	13%	28%

1. E.g. methane emissions from land-fills or agriculture and GHG emissions from waste burning
2. Includes international aviation and marine for consistency purposes

SOURCE: Energy Insights, EuroStat, EU inventory, team analysis

EU decarbonization and electrification scenarios

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eurelectric designed 3 deep EU decarbonization scenarios

	2015 - Baseline	2050 scenarios		
		Scenario 1	Scenario 2	Scenario 3
EU economy decarbonization achieved vs. 1990[1,2]	~22%	~80%	~90%	~95%

Driving towards full EU economy decarbonization

1 Emissions out of scope are expected to contribute proportionally to the decarbonization effort required in each scenario
2 Decarbonization will be different by sector depending on relative costs and available technologies, industry contributing least with below 80% of emission reduction in all scenarios

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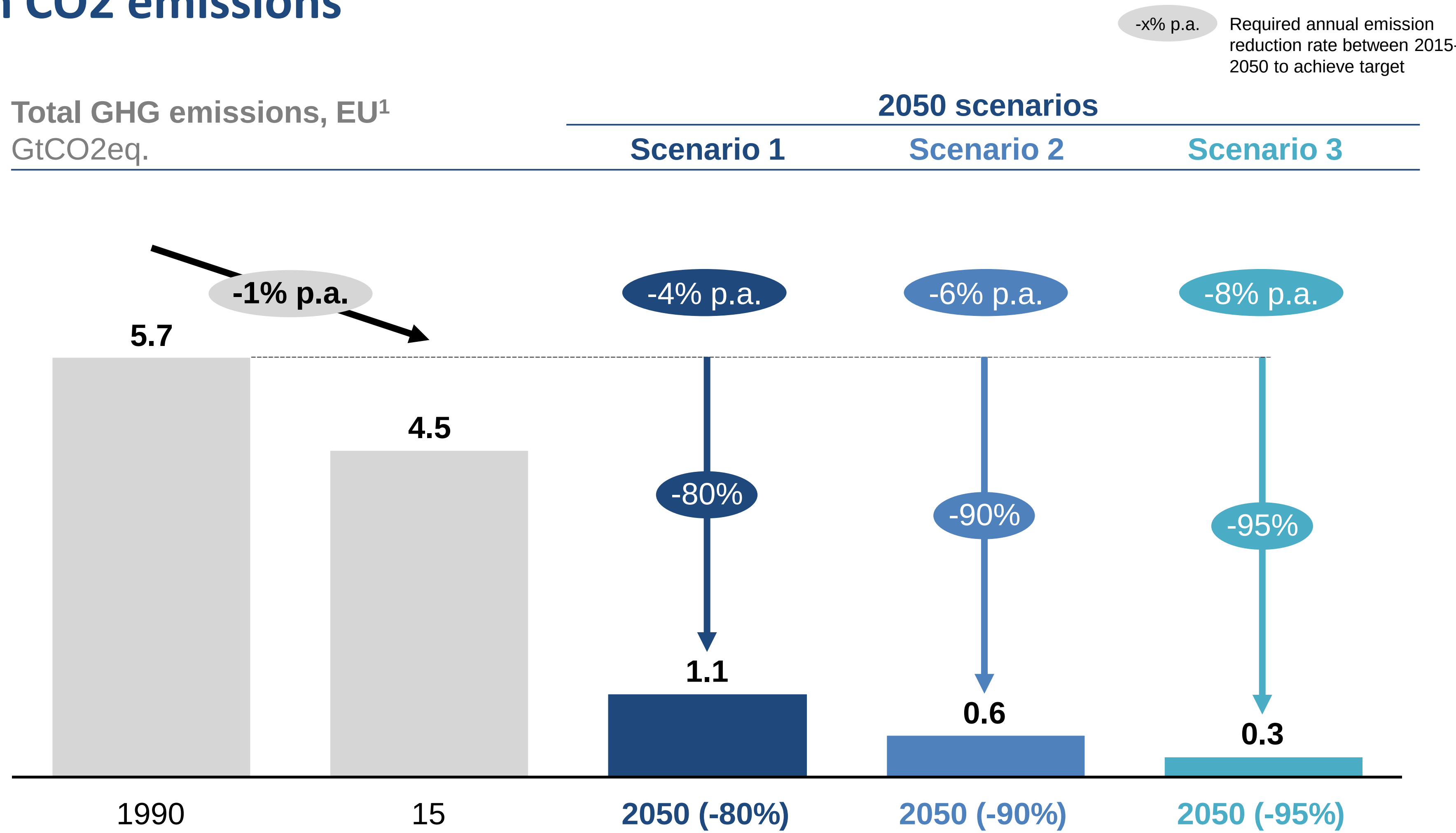
The 3 scenarios deliver unprecedented but necessary reductions in CO2 emissions



SOURCE: Energy Insights, EuroStat

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Current total direct electrification rates in Europe, across transport, industry and buildings, are 20-22%

Electrification[1] in 2015	France and Benelux	Germany and Central Europe	Iberia	Italy	Nordics and Baltics	Poland	Southeastern Europe	UK and Ireland	Europe (total)
Transport	**1%**	**2%**	**1%**	**2%**	**1%**	**1%**	**0%**	**1%**	**1%**
Aviation	0%	0%	0%	0%	0%	0%	0%	0%	**0%**
Marine	0%	0%	0%	0%	0%	0%	0%	0%	**0%**
Rail	81%	75%	73%	95%	59%	69%	36%	35%	**70%**
Road Transport	0%	0%	0%	0%	0%	0%	0%	0%	**0%**
Buildings	**38%**	**29%**	**52%**	**28%**	**47%**	**24%**	**35%**	**33%**	**34%**
Commercial	52%	38%	66%	51%	59%	50%	64%	49%	**50%**
Residential	30%	23%	42%	18%	41%	13%	25%	26%	**26%**
Industry	**29%**	**34%**	**35%**	**36%**	**41%**	**25%**	**30%**	**35%**	**33%**
Iron & Steel	18%	28%	54%	37%	45%	31%	36%	21%	**32%**
Other Industry	33%	36%	33%	36%	40%	24%	32%	34%	**35%**
Chemicals	24%	31%	33%	36%	42%	28%	17%	47%	**30%**
Total	**22%**	**22%**	**24%**	**21%**	**32%**	**18%**	**20%**	**21%**	**22%**

Note: aggregated electrification rates are weighted based on TFC, by country, sector and sub-sector

1 Direct electrification defined as share of electricity consumption within Total Final Energy Consumption
Source: 2015 IEA energy tables

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Electrification is pushing the frontiers of EU decarbonization

	Introduction of new technologies		Infrastructure development
Transportation	▪ **Several e-truck models commercialized in 2018 for a variety of purposes** (i.e., freight transport, garbage-collection vehicles) led by multiples manufacturers such as Volvo, Mercedes, DAF and Tesla ▪ First **electric vessels** are developing for freight transport in the Netherlands and e-ferries in Norway	▪ Avinor announced plans for **fully electric short-haul flights** by 2040 ▪ Airbus, Rolls-Royce, and Siemens team up for the development of **electric airplanes for short-haul**, aimed for the mid 2030s ▪ Nearly **doubling of investment in autonomous & electric vehicles** (8.4$B in 2014 to 15.2$B in 2016) world wide	▪ Tesla has installed more than **2,750 supercharger positions in the EU**; In the meantime, wireless charging for EVs has been standardized across Europe in 2017 ▪ Sweden built **first ever electrified road for charging vehicles as they drive** (2km stretch)
Buildings	▪ Nerdalize in the Netherlands is **heating residential water** using the heat generated from their cloud computing services	▪ Drammen **district heating in Norway provides 85% of hot water** needed for the city. With low cost of hydro-based electricity, it is cheaper to run a heat pump than a gas or electric boiler	▪ Hydeploy Consortium is aiming to blending up to **20% hydrogen with the UK gas moving towards further indirect electrification**
Industry	▪ Pilot projects for the **electrification of cement production** in Sweden ▪ **Electrification of steel production** using hydrogen (HYBRIT project) in Sweden	▪ VoltaChem and TNO are developing technologies that focus on the **conversion of renewable energy to heat, hydrogen and chemicals**	▪ Power-to-X alliance in Germany is investing up to 1.1B euros to facilitate **production of green hydrogen and synthetic methane**

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Scenarios are based on a combination of factors, including ambition, technology development, customer behavior and regulation

Today

Scenario 1	Accelerate current technological trends, policies and customers' uptake
Scenario 2	Shift policies significantly to remove barriers and promote decarbonization and electrification
Scenario 3	Drive early technological breakthrough and deployment at scale through global coordination

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Key drivers and pre-requisites of the 3 scenarios

Main electrification drivers and key incremental changes between scenarios

	Scenario 1	Scenario 2	Scenario 3
Ambition	▪ The EU takes bold steps to implement what it promised to deliver under the Paris Agreement: 80% emissions reduction versus 1990	▪ EU opts for a more ambitious implementation of the Paris Agreement in the context of increased international coordination and ambitious review process: 90% emissions reduction	▪ EU decides to fully decarbonize its economy by 2050 in a context of concerted efforts with decarbonization policies around the world which ensure a level playing field
Technology development	▪ Technology development is driven by acceleration of current trends and learning curves ▪ Low-carbon technologies available today increase their market share and are deployed across the EU economy	▪ Early technology development and deployment: mature technologies experience steep cost reductions towards 2030 and new technologies that are coming to the market today are commercially deployed at a large scale across the economy after 2040 ▪ Some industrial processes are redesigned to reduce their emissions while more complex industrial processes remain challenging to decarbonize and electrify	▪ Major technology breakthroughs: ▪ Early and major shift in cost reduction of currently non-mature technologies driven by high adoption of electric solutions, innovation, Research and Development ▪ Breakthrough technologies at an early stage of innovation today are commercialized at broad scale before 2040
Consumer behavior	▪ End user awareness and appetite for clean technologies increase but cost/convenience remain important limiting factors ▪ Taxes and levies hamper consumers' switch to electric solutions	▪ Clean technologies progressively become mainstream and increasingly competitive for consumers ▪ Electricity is relatively competitive against other energy carriers, driving partial adoption in industry, while overall competitiveness of the EU industry is safeguarded	▪ Fast and massive adoption of clean technologies by consumers across the world, driven by high competitiveness of electricity vs. other energy carriers; especially, early and fast adoption of electric solutions as they are readily available
Regulation	▪ Over time, policies -including CO_2 emissions related policies and pricing- start driving market forces towards deployment of mature and maturing clean technologies and technology switch	▪ Regulation on CO_2-GHG emissions, environment, fossil fuels and infrastructure tightens ▪ Major shifts in policies, tariffs and taxes, driving earlier shift and removing current barriers to electrification	▪ Implementation of regulations and mechanisms envisioned for scenario 2 now happens on a global scale ▪ Much earlier implementation of this regulation (vs. scenario 2) is needed to deliver on full decarbonization objectives by 2050

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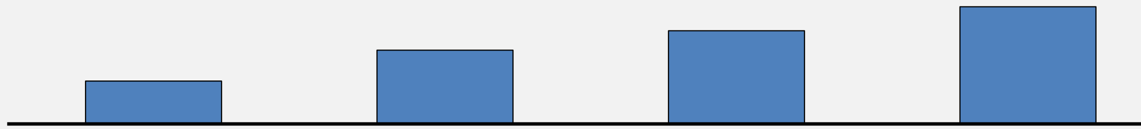
Direct electrification results by scenario

		2015 Baseline	2050 Scenario 1	2050 Scenario 2	2050 Scenario 3
Total EU economy	EU economy decarbonization vs 1990	22%	80%	90%	95%
	Direct electrification rate	22%	38%	48%	60%
Total transport	Direct electrification rate	**1%**	29%	43%	63%
Total buildings	Direct electrification rate	**34%**	45%	54%	63%
Total industries	Direct electrification rate	**33%**	38%	44%	50%



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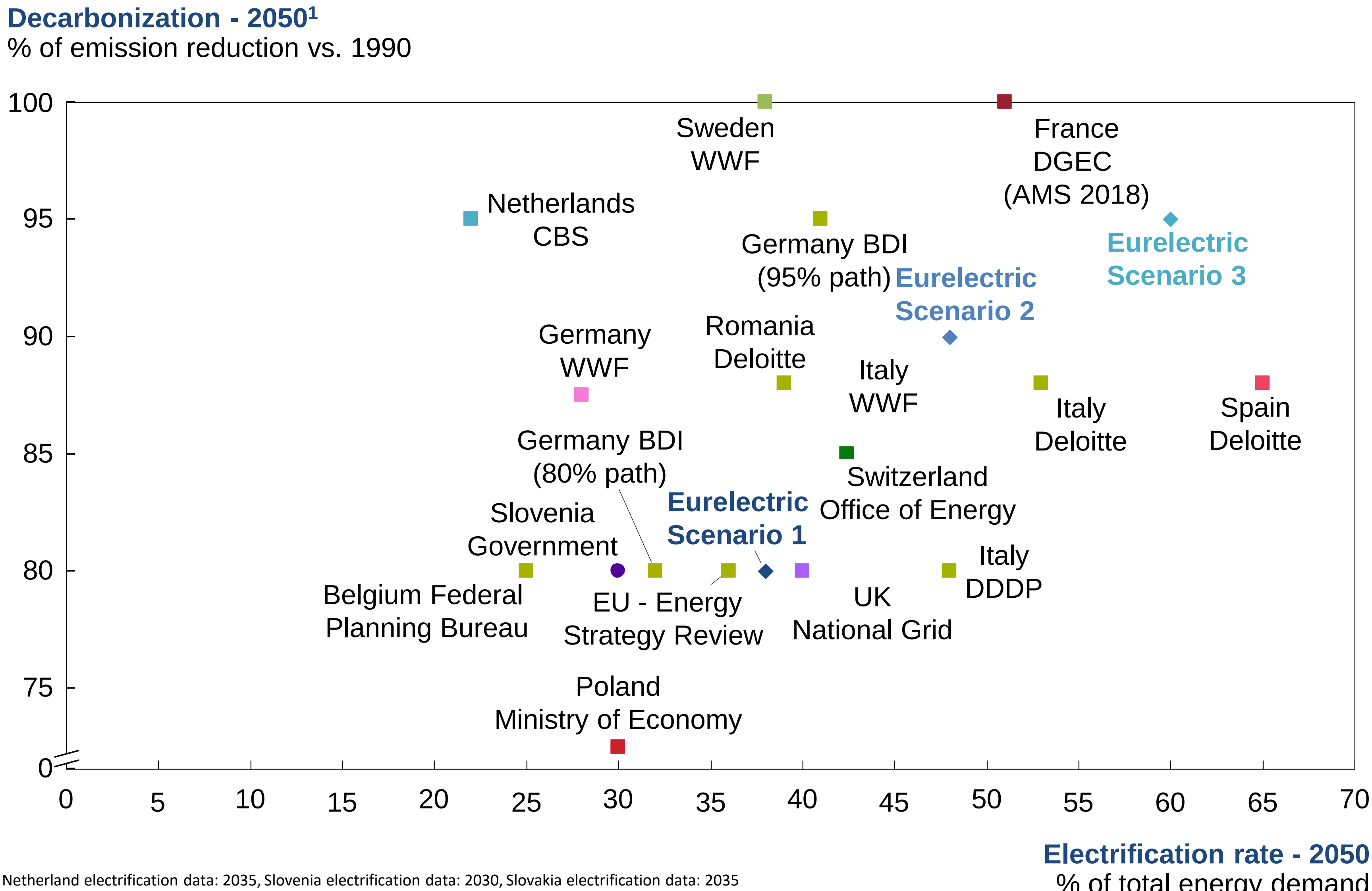

- Netherland electrification data: 2035, Slovenia electrification data: 2030, Slovakia electrification data: 2035
- Spain, Germany, Italy decarbonization rate is 80 – 95%

1 Decarbonization could be achieved through a combination of factors, including electrification but also energy efficiency and alternative carbon-neutral fuels, e.g., H2, biofuels, etc

SOURCE: National reports (Utility, Government) , NGO, Independent research agencies and think tanks

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Energy efficiency drives down final energy consumption significantly, while yearly direct electricity consumption increases by 1.0 to 1.5%

Scenario 1
Scenario 2
Scenario 3

Total Final Energy Consumption (TFC[1])

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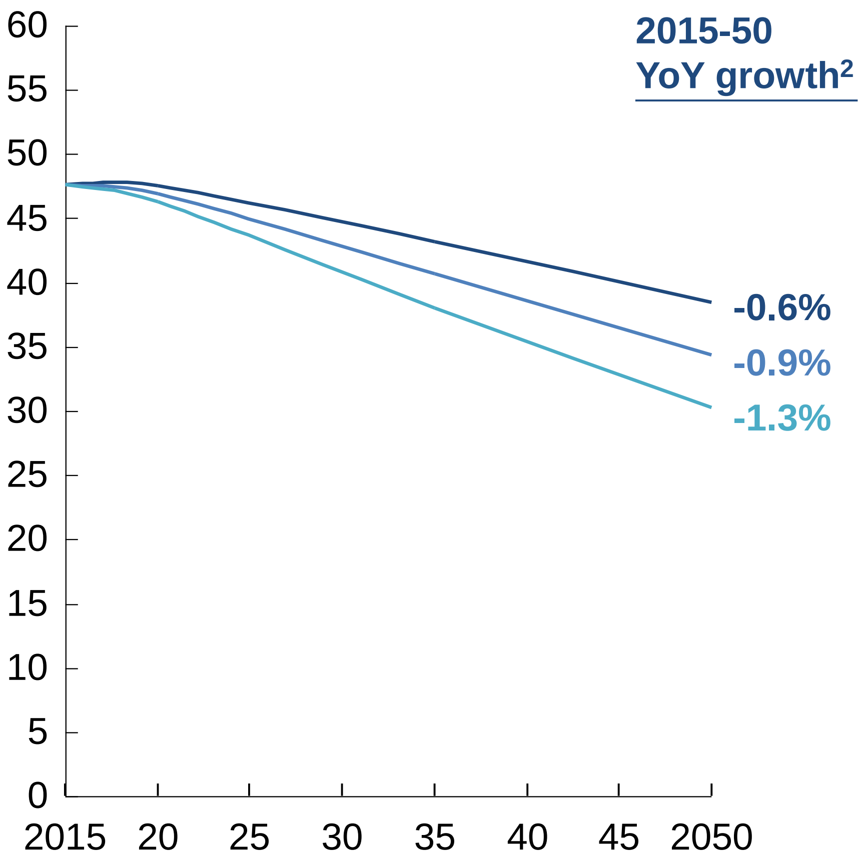
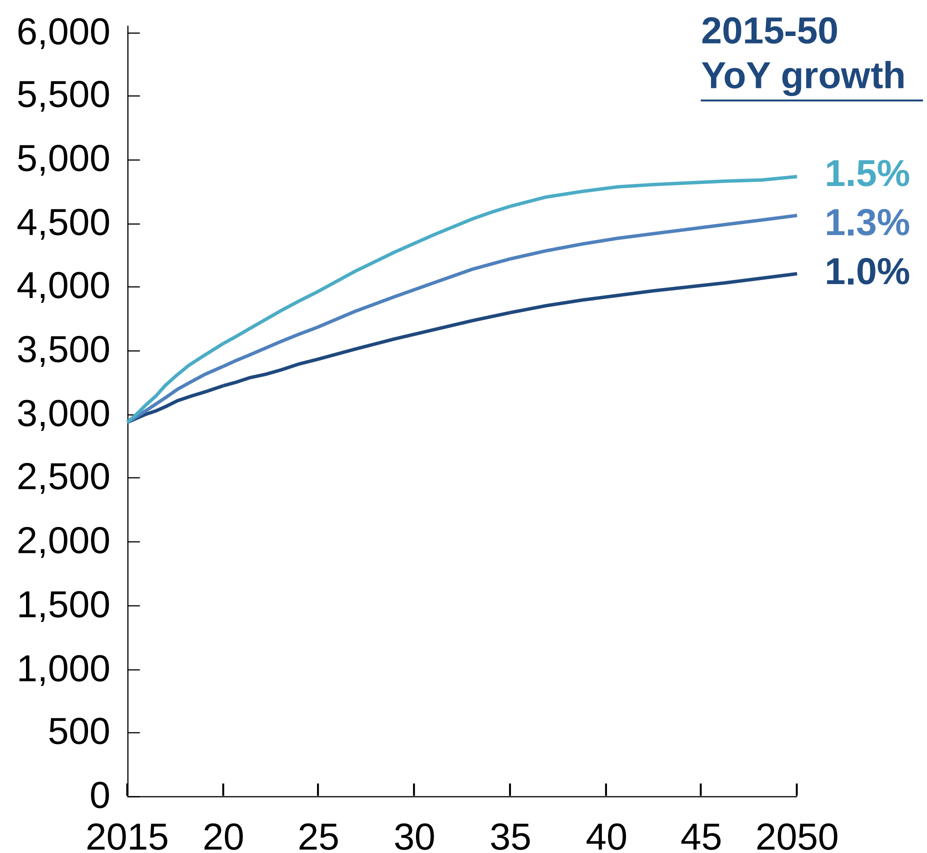


Direct electricity consumption in TFC[1]

TWh



1 Includes 32 countries in scope: EU28 + EEA; ENTSOE report additionally includes Turkey and other Eastern European countries adding up to a total of ~3,300 TWh
2 Annual YoY TFC reduction adjusted to total GDP growth (as a proxy for increase in energy productivity) varies between 2% and 2.8% depending on scenarios

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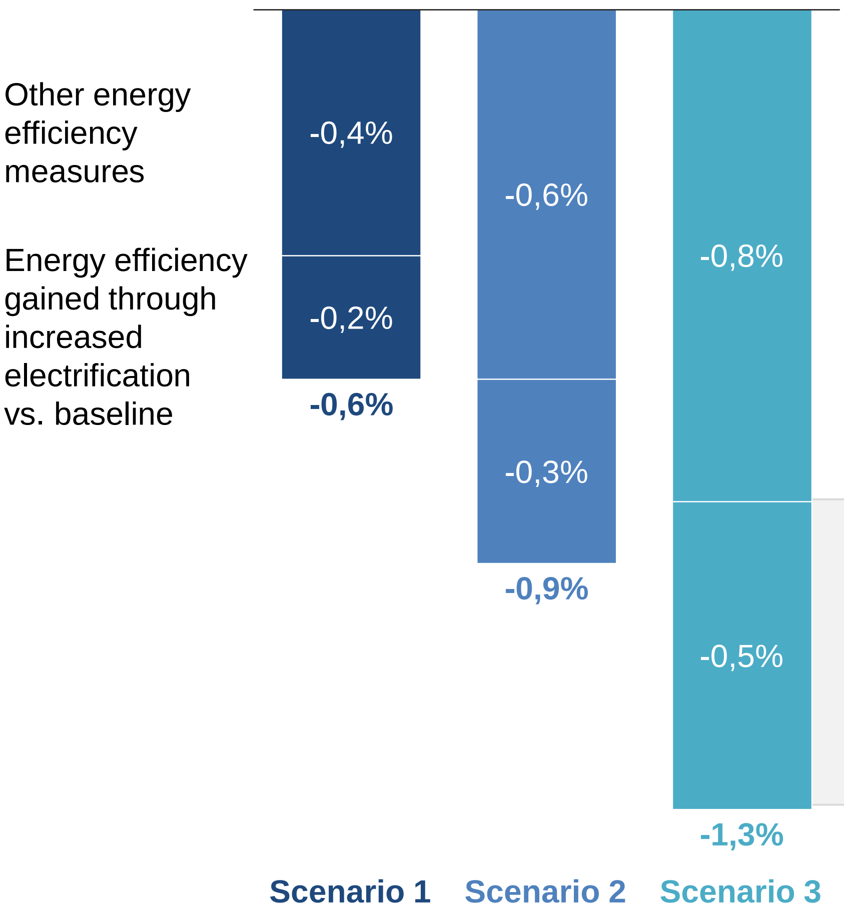
Deploying electric solutions is strongly contributing to the total energy efficiency gains

Drivers of energy efficiency gains

2015-2050 YoY reduction in TFC



Illustrations by sector

Transport

- In passenger cars, EVs consume 25% of ICE vehicles' energy consumption
- For trucks, e-trucks consume ~50% of their diesel equivalents' own energy consumption

Buildings

- In space heating, heat pumps' coefficient of performance (COP[1]) is 4-5x higher than the COP for typical gas boilers
- In cooking, the energy intensity of electric solutions is 10% lower than for gas and down to 1/5 of the energy intensity of charcoal and wood

Industry

- For steel, electric arc furnace route using recycled steel is 5-6x less energy intense than traditional coal-based (blast furnace) production routes
- In other industry, electric solutions (e.g., heat pumps, hybrid boilers) can be between 100-300% more energy efficient for low temperature grades then their gas equivalents

1 Coefficient of performance (COP) = ratio of heat delivered vs energy needed as input

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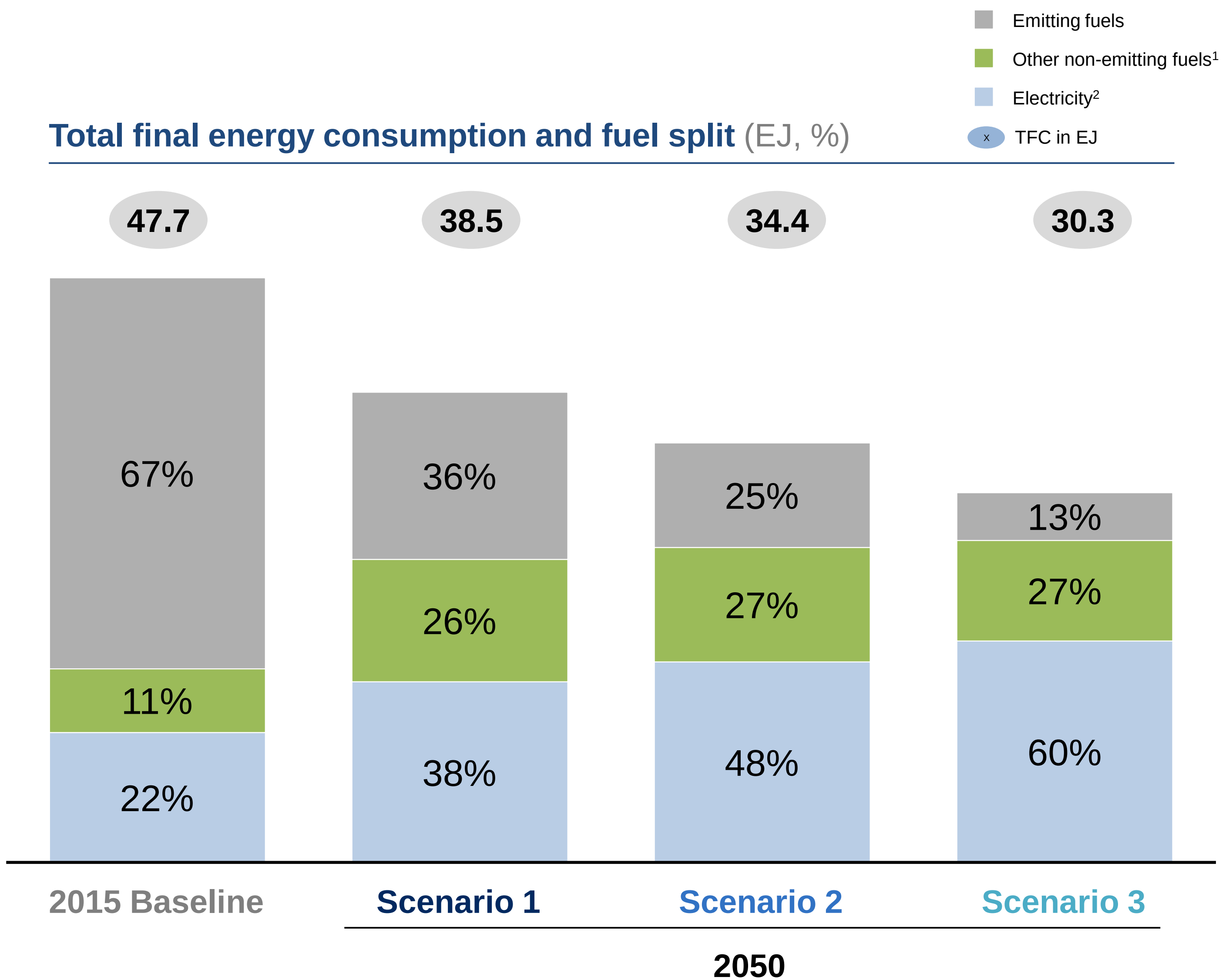
A strong electricity uptake in total final energy consumption

Electrification will be driven by economic drivers, technological advances and further support from enabling regulation. Other carbon-neutral technologies, starting with increased energy efficiency, will develop in parallel and contribute to reach the decarbonization targets.



1 Includes non-emitting primary fuels/sources such as geothermal, solar thermal, and biomass but also secondary fuels such as biofuels, synthetic fuels, hydrogen and others
2 Direct electricity consumption

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Total electricity demand is expected to increase beyond envisioned direct electrification

Total electricity demand

	Definition	YoY increase in total electricity consumption in TFC: Scenario 1	Scenario 2	Scenario 3
Direct electricity demand	Direct use of electricity as an energy carrier (e.g. power consumed by households, road transportation, etc.)	1.0%	1.3%	1.5%
+ Indirect electricity demand for power-to-X	Power demand to produce hydrogen (via electrolysis), gas and other synthetic fuels which can then be used to decarbonize certain industry processes or as a fuel for transports	0.3%	0.4%	0.5%
+ Additional electricity demand for other decarbonization	Power required for CCS[1] and to produce other clean fuels/feedstock (e.g. biofuels)	0.1%	0.1%	0.1%

1 Total CO2 abated through CCS: <200 Mt Co2; CCS may require technology improvement as well as increasing acceptability, e.g., for underground storage

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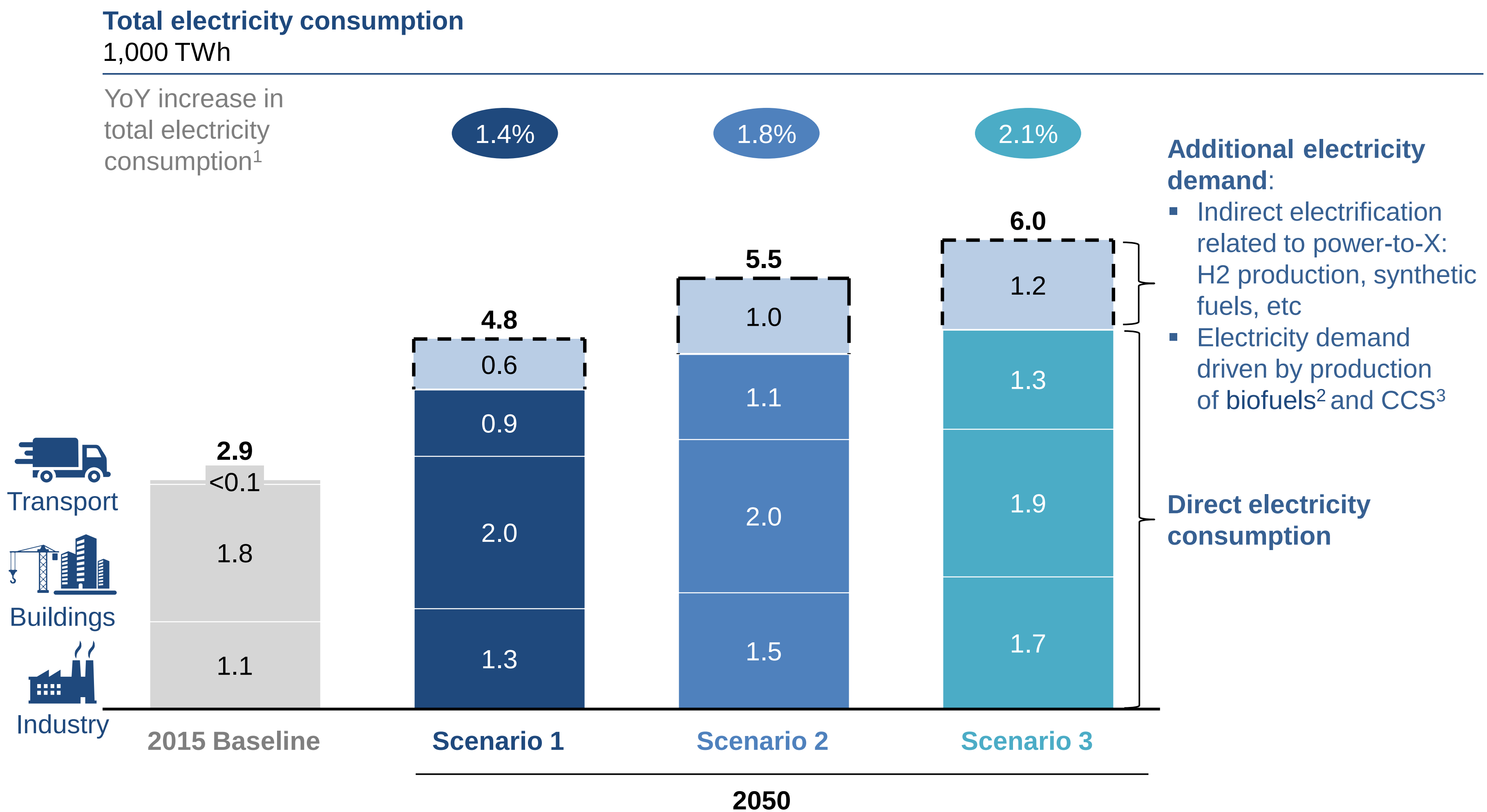
Strong electricity uptake in all sectors, with strongest increase in transport



1 Includes both direct and indirect electrification (power-to-X) as well as electricity demand driven by production of CCS and biofuels
2 Biofuels require feedstock as well as additional energy (either in form of thermal energy or power) for their production – see glossary
3 Total CO2 abated through CCS: <200 Mt Co2; CCS may require technology improvement as well as increasing acceptability, e.g., for underground storage

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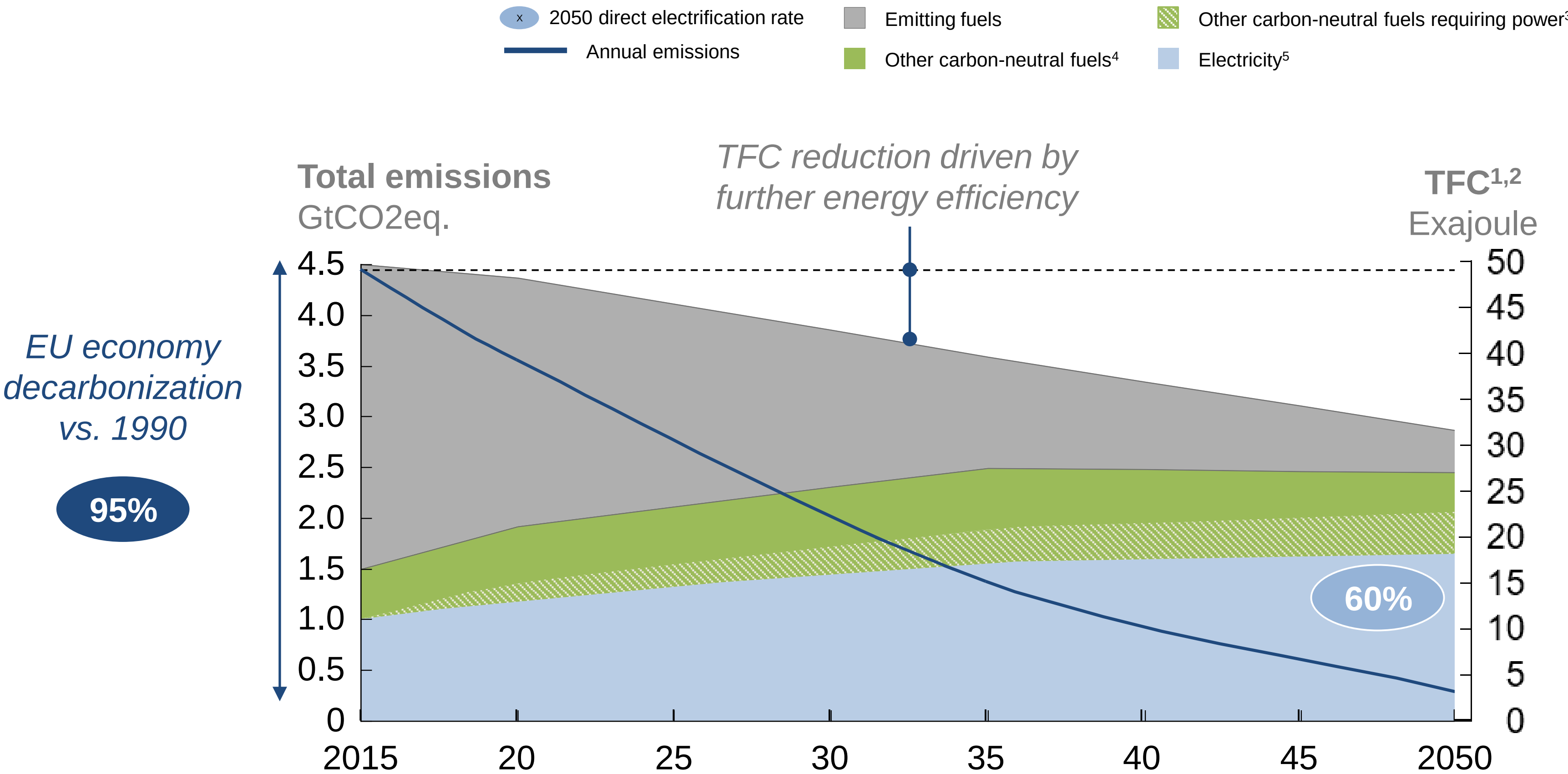
95% decarbonization through strong electrification, energy efficiency, and support from other non-emitting fuels

Impact of electrification on Total Final Energy Consumption (TFC) and EU economy emissions



1 Includes 32 countries in scope: EU28 + EEA; ENTSOE report additionally includes Turkey and other Eastern European countries adding up to a total of ~3,300 TWh
2 Electricity consumption from transformation sectors not included; 3 Includes non-emitting fuels that trigger indirect electrification through power-to-X (H2, synth fuels) as well as non-emitting fuels that trigger increased electricity demand to be produced such as biofuels; 4 Includes all other non-emitting fuels/sources such as geothermal, solar thermal, and others; 5 Direct electricity consumption

Implementation of envisioned electrification and decarbonization will require to overcome some challenges, especially in scenario 3

- Expected annual energy productivity gains vary from 2% to 2.8% depending on scenario. 1/3 of this increase in energy efficiency is driven by electrification; capturing the other 2/3 of these expected energy efficiency gains would require to remove the current observed barriers to adoption and implementation of energy efficiency measures
- Ambitious decarbonization in scenario 3, especially of industry (around 80% versus 1990), might come at an extra cost versus existing emitting technologies
- Significant technology progress and breakthroughs have to materialize in the timeframe considered, such as the production of cost-competitive and clean H2 and synthetic fuels at scale
- Required ramp-up in supply chain and infrastructures for electric solutions development and deployment has to be secured to effectively support adoption of electric solutions
- Acceptability challenges, for instance for CCS, would need to be addressed

Scenarios – Regional perspectives

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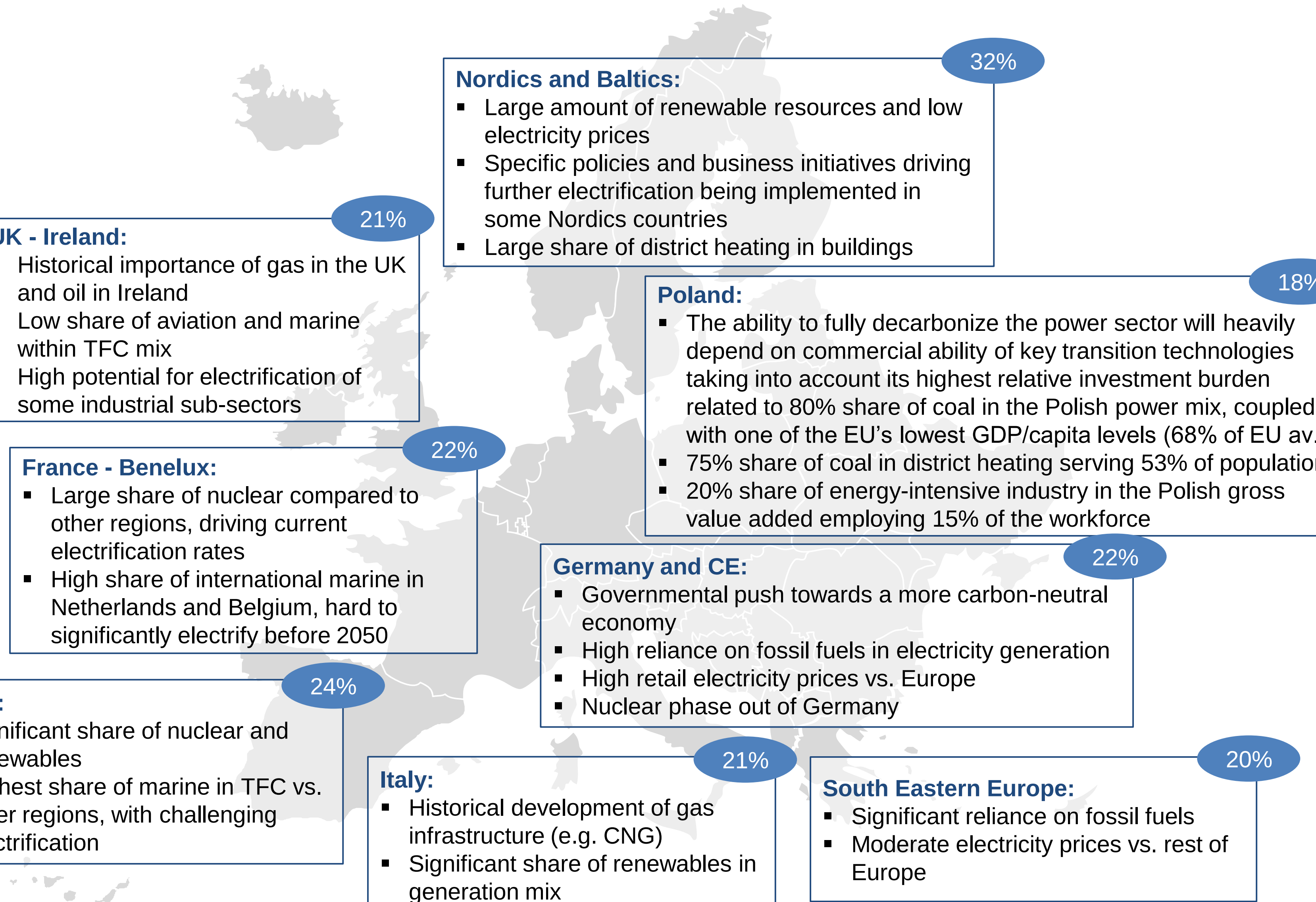
Different starting points in the energy transition

2015 baseline – direct electrification rate



Nordics and Baltics: 32%

- Large amount of renewable resources and low electricity prices
- Specific policies and business initiatives driving further electrification being implemented in some Nordics countries
- Large share of district heating in buildings

UK - Ireland: 21%

- Historical importance of gas in the UK and oil in Ireland
- Low share of aviation and marine within TFC mix
- High potential for electrification of some industrial sub-sectors

Poland: 18%

- The ability to fully decarbonize the power sector will heavily depend on commercial ability of key transition technologies taking into account its highest relative investment burden related to 80% share of coal in the Polish power mix, coupled with one of the EU's lowest GDP/capita levels (68% of EU av.)
- 75% share of coal in district heating serving 53% of population
- 20% share of energy-intensive industry in the Polish gross value added employing 15% of the workforce

France - Benelux: 22%

- Large share of nuclear compared to other regions, driving current electrification rates
- High share of international marine in Netherlands and Belgium, hard to significantly electrify before 2050

Germany and CE: 22%

- Governmental push towards a more carbon-neutral economy
- High reliance on fossil fuels in electricity generation
- High retail electricity prices vs. Europe
- Nuclear phase out of Germany

Iberia: 24%

- Significant share of nuclear and renewables
- Highest share of marine in TFC vs. other regions, with challenging electrification

Italy: 21%

- Historical development of gas infrastructure (e.g. CNG)
- Significant share of renewables in generation mix

South Eastern Europe: 20%

- Significant reliance on fossil fuels
- Moderate electricity prices vs. rest of Europe

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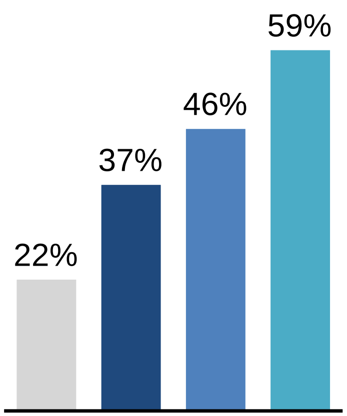
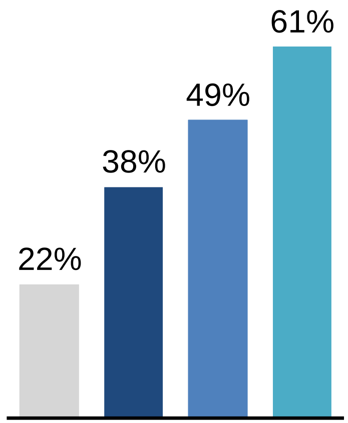
2015 baseline
Scenario 1
Scenario 2
Scenario 3

Direct electrification rates vary by region across scenarios

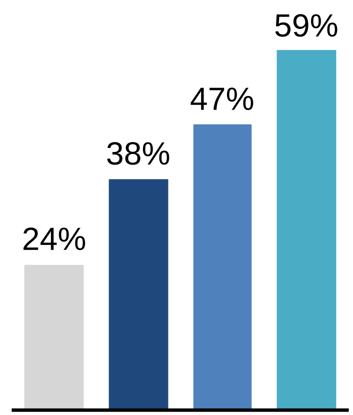
France & Benelux



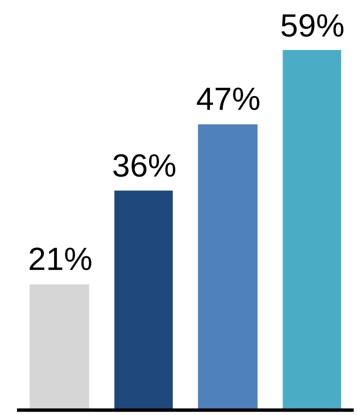
Germany & Central Europe



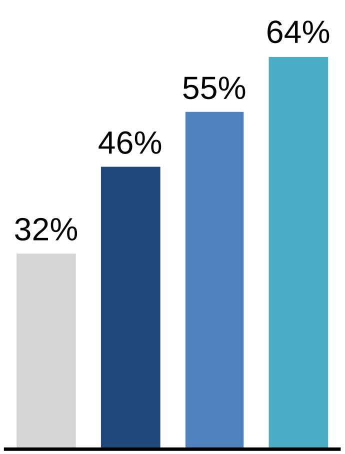
Iberia



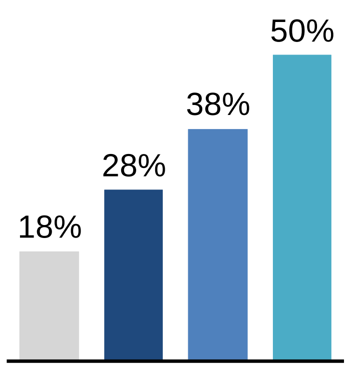
Italy



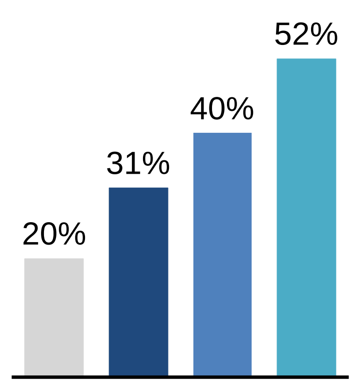
Nordics and Baltics



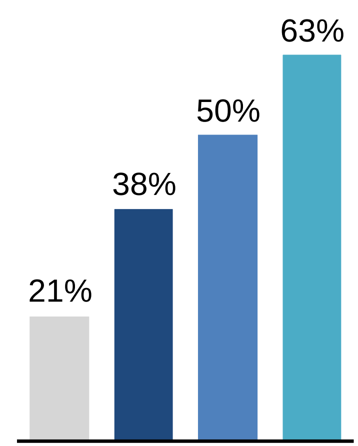
Poland



Southeastern Europe



UK & Ireland



Scenarios – Perspectives by sector – Transport

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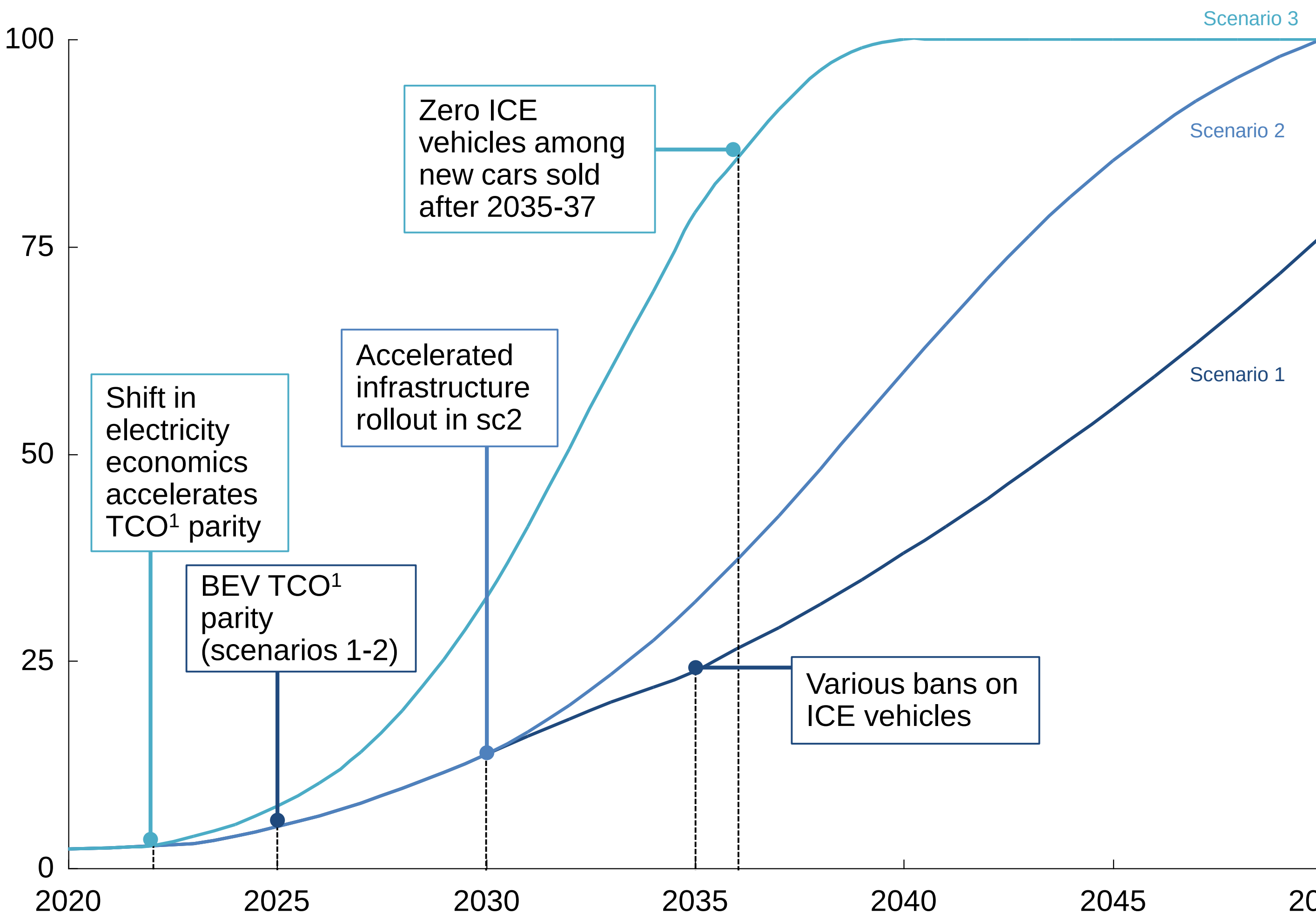
Favorable TCO[1] and regulatory push drive up-take of electric vehicles in passenger cars across our 3 scenarios

Share of battery electric vehicles (BEVs) in new sales in the EU

Percent



Key drivers of BEVs sales

- Current fleet
- Macro-economic drivers: GDP, population growth
- Scrap rates, especially of internal-combustion-engine (ICE) vehicles
- TCO of BEVs relative to other competing technologies, driven by decreasing battery cost
- Demand for shared mobility and autonomous driving
- Infrastructure deployment and innovation *(i.e. wireless charging)*
- Non-economic drivers for BEV acquisition *(i.e. regulation, environmental awareness)*

1 TCO: total cost of ownership

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ILLUSTRATIVE

Electrification of passenger cars requires a strategic charging infrastructure build-up

			2050 scenarios		
		2015 baseline	Scenario 1	Scenario 2	Scenario 3
Electric vehicles production and fleet	EVs in fleet	~0.5 million	~88 million	~100 million	~130 million
	Share of EVs in fleet	< 1%	65%	80%	96%
	Installed battery manufacturing capacity[1]	~10 GWh	~700 GWh	~840 GWh	~840 GWh
Electricity consumption	Km driven by EVs per year	10 billion	2.5 trillion	2.8 trillion	3.1 trillion
	Consumption by EVs per year (% of passenger cars TFC)	~1.5 TWh	~250 TWh (42% of TFC)	~260 TWh (66% of TFC)	~256 TWh (94% of TFC)
Charging infrastructure	Charging points	~0.5 million	~80 million	~85 million	~65 million
	Fast charging	1%	5%	15%	50%
	Slow charging office & public	6%	10%	30%	35%
	Slow charging home	93%	85%	55%	15%

Key drivers across scenarios

- Increasing efficiencies of products and production processes (e.g., engines energy efficiency, production learning curves)
- More systematic deployment of smart charging services
- Increasing adoption of shared mobility, reducing total fleet size while increasing VKT per vehicle
- Development of autonomous driving, shifting consumers' behavior and charging from mostly slow-charging at home to fast charging stations

1 Assumption: EV Battery density is 40 Wh/kg

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Resulting electrification by sub-sector (1/2)

		2015 Baseline	2050 Scenario 1	2050 Scenario 2	2050 Scenario 3
Passenger cars	Direct electrification rate	**0%**	42%	66%	94%
	Share in new sales	**1%**	75%	100%	100%
	Share in fleet	**<1%**	65%	80%	96%
Trucks	Direct electrification rate	**0%**	24%	29%	48%
Buses	Direct electrification rate	**0%**	29%	39%	58%

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Resulting electrification by sub-sector (2/2)

Sub-sector	Metric	2015 Baseline	2050 Scenario 1	2050 Scenario 2	2050 Scenario 3
Aviation	Direct electrification rate	0%	0%	2%	5%
Marine	Direct electrification rate	0%	2%	6%	11%
Rail	Direct electrification rate	70%	73%	80%	93%
Total transport	Direct electrification rate	1%	29%	43%	63%
Total transport	Total electricity demand as part of TFC[1]	1%	34%	48%	67%

1 Includes direct electrification, indirect electrification and electricity demand driven by production of CCS and biofuels

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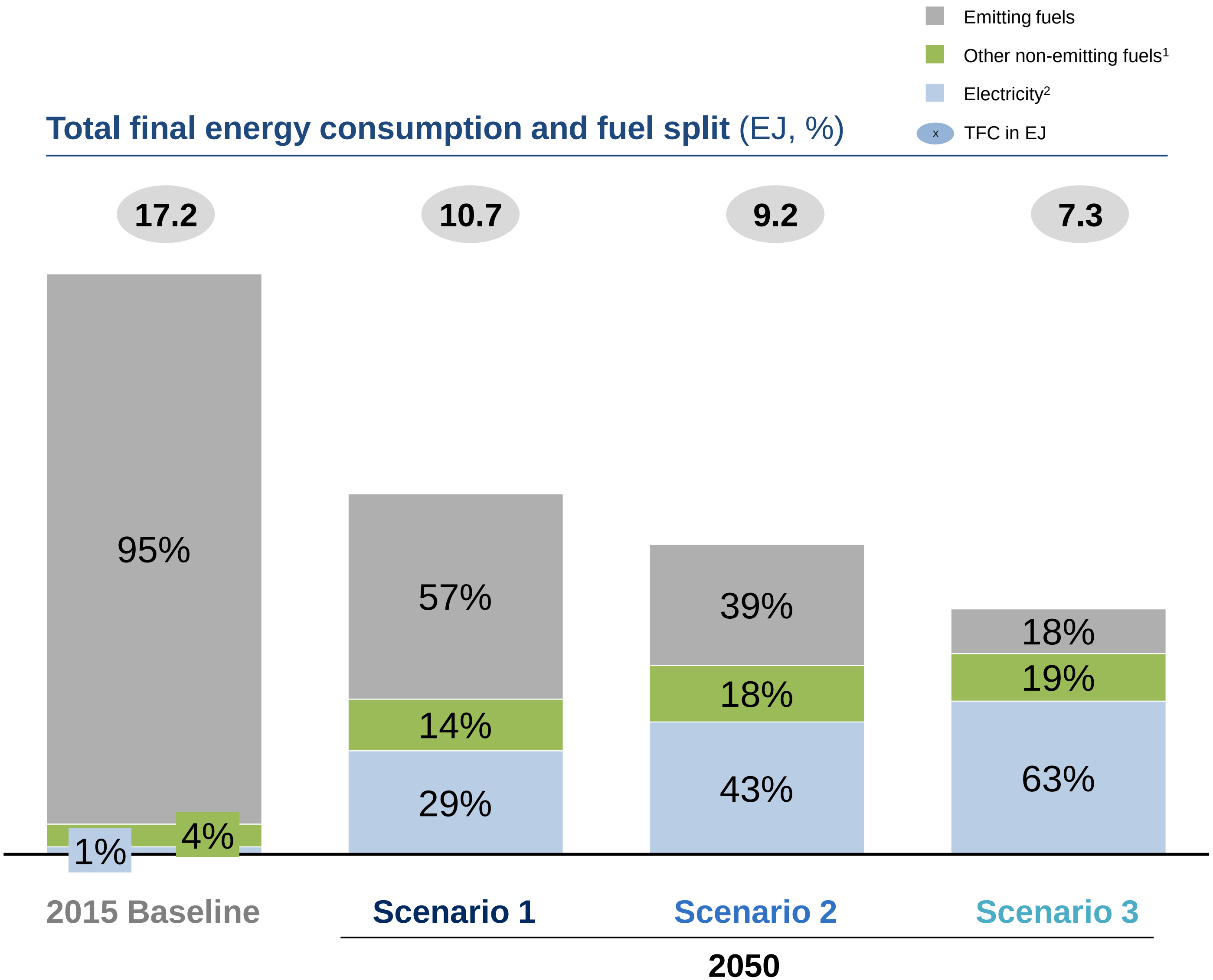
Transport total final energy consumption - breakdown by scenario

In transport, EV TCO will drive adoption of electric solutions, except in sub-sectors where limitations in energy density (e.g. aviation, heavy-duty) would drive towards other solutions; some of them have to be developed (e.g., H2) while other cleaner technologies (e.g., CNG) could be adopted transitionally



1 Includes non-emitting secondary fuels such as biomethane, biodiesel, bioethanol, hydrogen and others
2 Direct electricity consumption

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Scenarios – Perspectives by sector – Buildings

Resulting electrification by sub-sector – Commercial

		2015 Baseline	2050 Scenario 1	2050 Scenario 2	2050 Scenario 3
Space heating	Direct electrification rate	**16%**	25%	43%	53%
Water heating	Direct electrification rate	**15%**	25%	43%	53%
Cooking	Direct electrification rate	**20%**	75%	90%	95%

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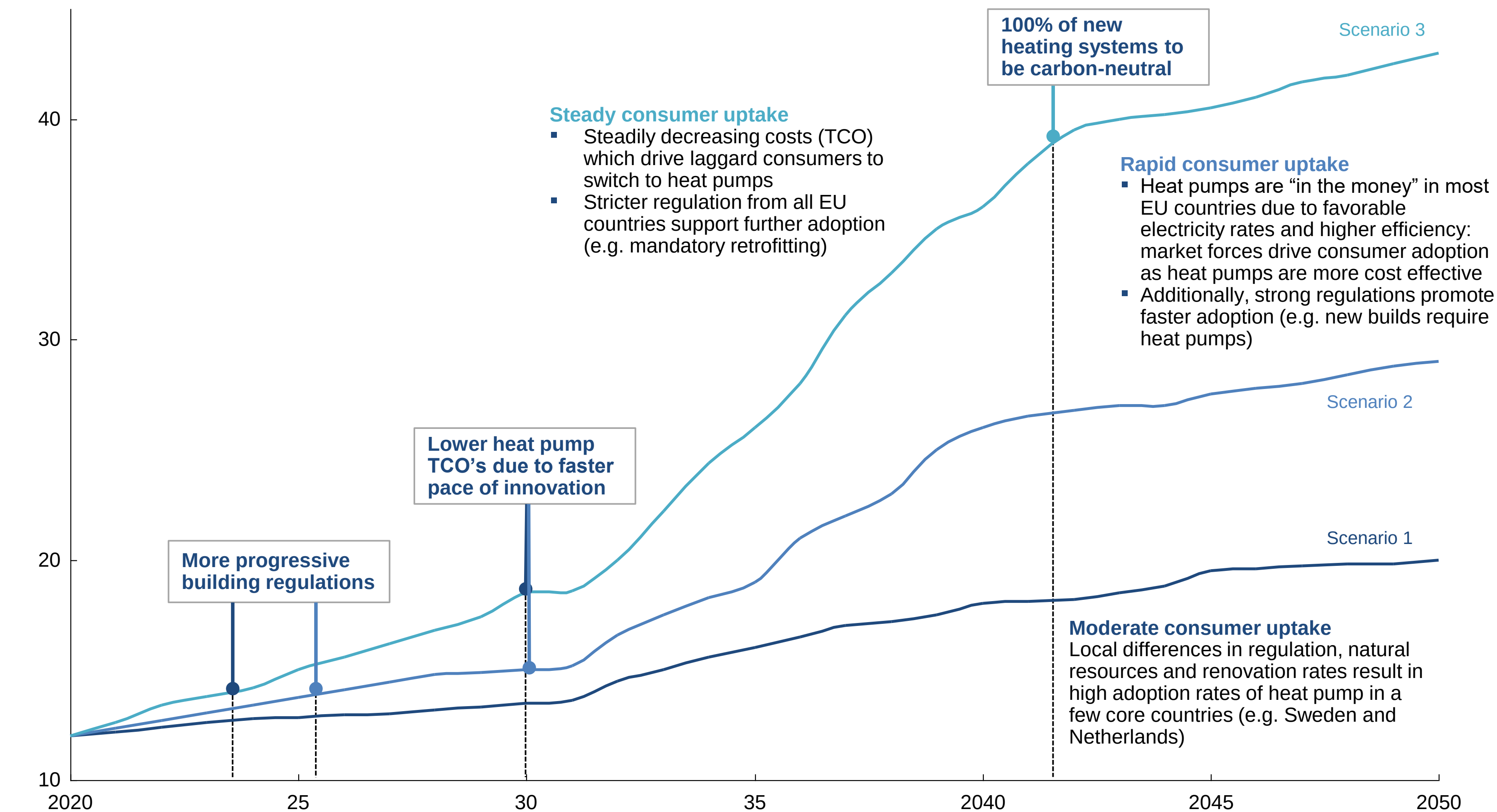
Resulting electrification by sub-sector – Residential

		2015 Baseline	2050 Scenario 1	2050 Scenario 2	2050 Scenario 3
Space heating	Direct electrification rate	8%	21%	32%	44%
Water heating	Direct electrification rate	11%	22%	32%	44%
Cooking	Direct electrification rate	26%	75%	90%	95%
Total buildings	Direct electrification rate	34%	45%	54%	63%
	Total electricity demand as part of TFC[1]	34%	45%	56%	64%

1 Includes direct electrification, indirect electrification and electricity demand driven by production of CCS and biofuels

Changes in heat pump economics are driving adoption of electrification in space heating for buildings

Heat pump market share of space heating
Percent of total TFC electrified



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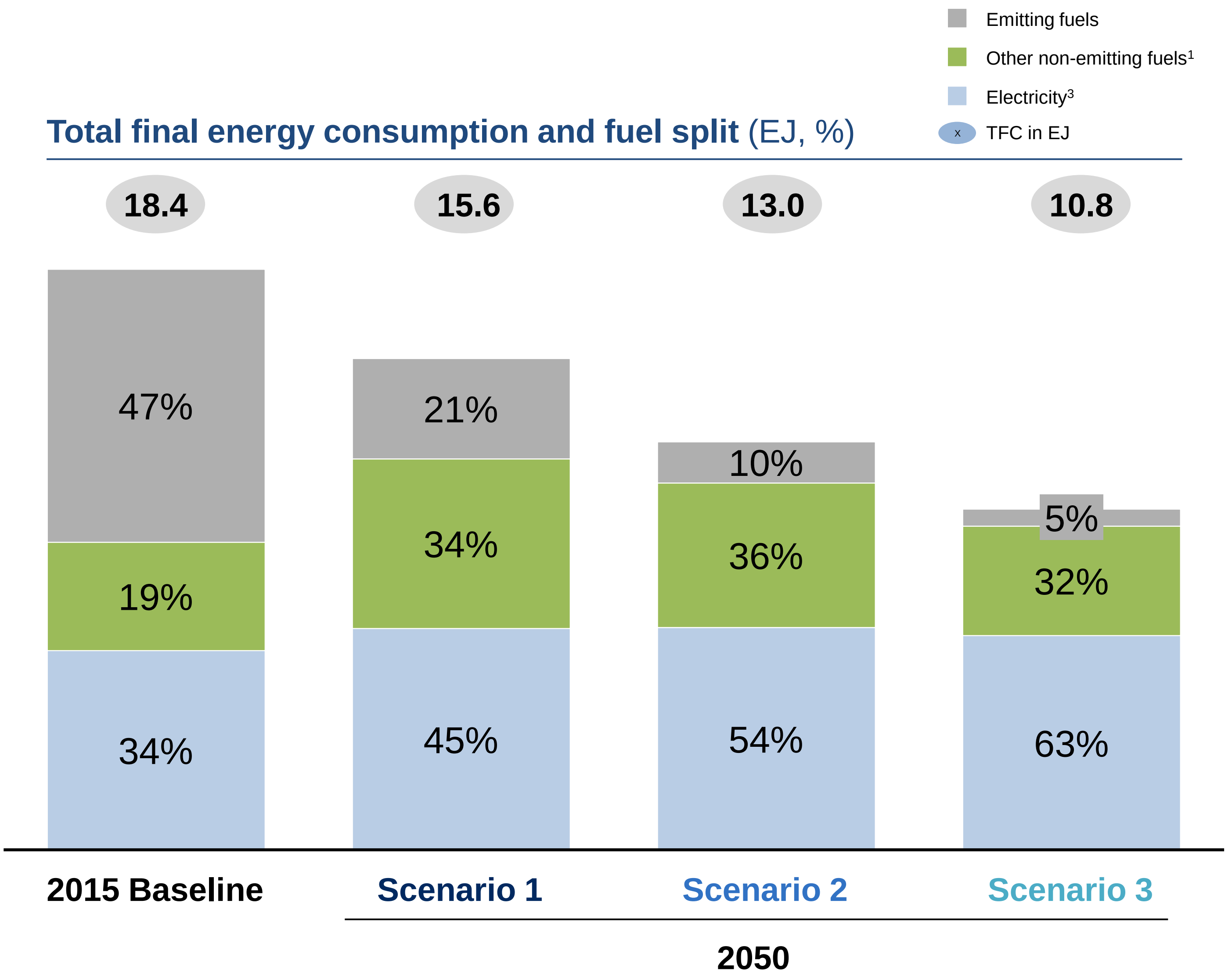
Buildings[2] total final energy consumption - breakdown by scenario

In buildings, innovations in heat pumps (TCO, volume needed) drive increasing adoption of electric solutions; role of district heating remains critical, while biogas and H2 can emerge as a complementary way to decarbonize the sector



1 Includes non-emitting primary fuels/sources such as geothermal, solar thermal, and biomass but also secondary fuels such as biofuels, synthetic fuels, hydrogen, heat and others
2 Buildings includes all end uses (i.e. space and water heating, cooking, appliances, space cooling and lighting)
3 Direct electricity consumption

Scenarios – Perspectives by sector – Industry

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Electrification is expected to play a major role, as part of the 'menu' of options that could address the industry CO_2 emission

Demand side measures

Lower the demand for virgin products by increasing reuse and recycling of the materials, or by replacing it by another material

Energy efficiency

Adapting the production equipment to lower energy use per production volume

Electrification of heat

Replace fossil fuel for heating with electricity in e.g., ethylene production

Hydrogen as fuel or feedstock

Replace the feedstock or fuel with carbon neutral hydrogen e.g., in ammonia production

Biomass as fuel or feedstock

Replace the feedstock or fuel with sustainably produced biomass to reduce CO_2 emissions, e.g., use bio-based feedstock in chemicals production

CCS / CCU

Capture the CO_2 emitted and store (CCS) or use (CCU)

Other innovation

- Innovative processes e.g., electrochemical production process
- Non-fossil fuel feedstock change e.g., change in cement feedstock

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Direct electrification is mostly relevant for the cement and ethylene sectors as well as for industries supplied by fuel

- ✓ (green) Applied at industrial scale sites
- ✓ (yellow) Technology (to be applied) in pilot site
- ✓ (black) (Applied) research phase

		Electrification of heat	Hydrogen as a feedstock	Biomass as fuel or feedstock	CCS[2]	Other innovations[3]
Feedstock and fuel	Cement	✓ (black)		✓ (green)	✓ (yellow)	✓ (black) ✓ (green) ✓ (yellow) Alternative feedstocks[4]
Feedstock and fuel	Iron and steel		✓ (yellow)	✓ (green)	✓ (yellow)	✓ (black) Electrolysis for iron reduction
Feedstock and fuel	Ammonia		✓ (yellow)	✓ (black)	✓ (green)	✓ (black) Methane pyrolysis for hydrogen production
Feedstock and fuel	Ethylene	✓ (yellow)		✓ (green)	✓ (yellow)	✓ (black) Electrochemical processes for monomer production
Fuel	Other industry[1] (heat)	✓ (green)		✓ (green)	✓ (yellow)	✓ (black) Medium temperature heat pumps

1 Includes manufacturing, construction, food and tobacco, etc.; 2 CCS may require technology improvement as well as increasing acceptability, e.g., for underground storage;
3 Not exhaustive; 4 Technological maturity depends on the type of alternative feedstock

SOURCE: Report "Energy transition – Mission impossible for the industry ?" (McKinsey, 2018)

Resulting electrification by sub-sector

Sub-sector	Indicator	2015 Baseline	2050 Scenario 1	2050 Scenario 2	2050 Scenario 3
Chemicals	Direct electrification rate	**30%**	35%	36%	39%
Iron & Steel	Direct electrification rate	**32%**	38%	39%	42%
Other industries	Direct electrification rate	**35%**	39%	47%	55%
Total industries	Direct electrification rate	**33%**	38%	44%	50%
	Total electricity demand as part of TFC[1]	**33%**	45%	53%	60%

1 Includes direct electrification, indirect electrification and electricity demand driven by production of CCS and biofuels

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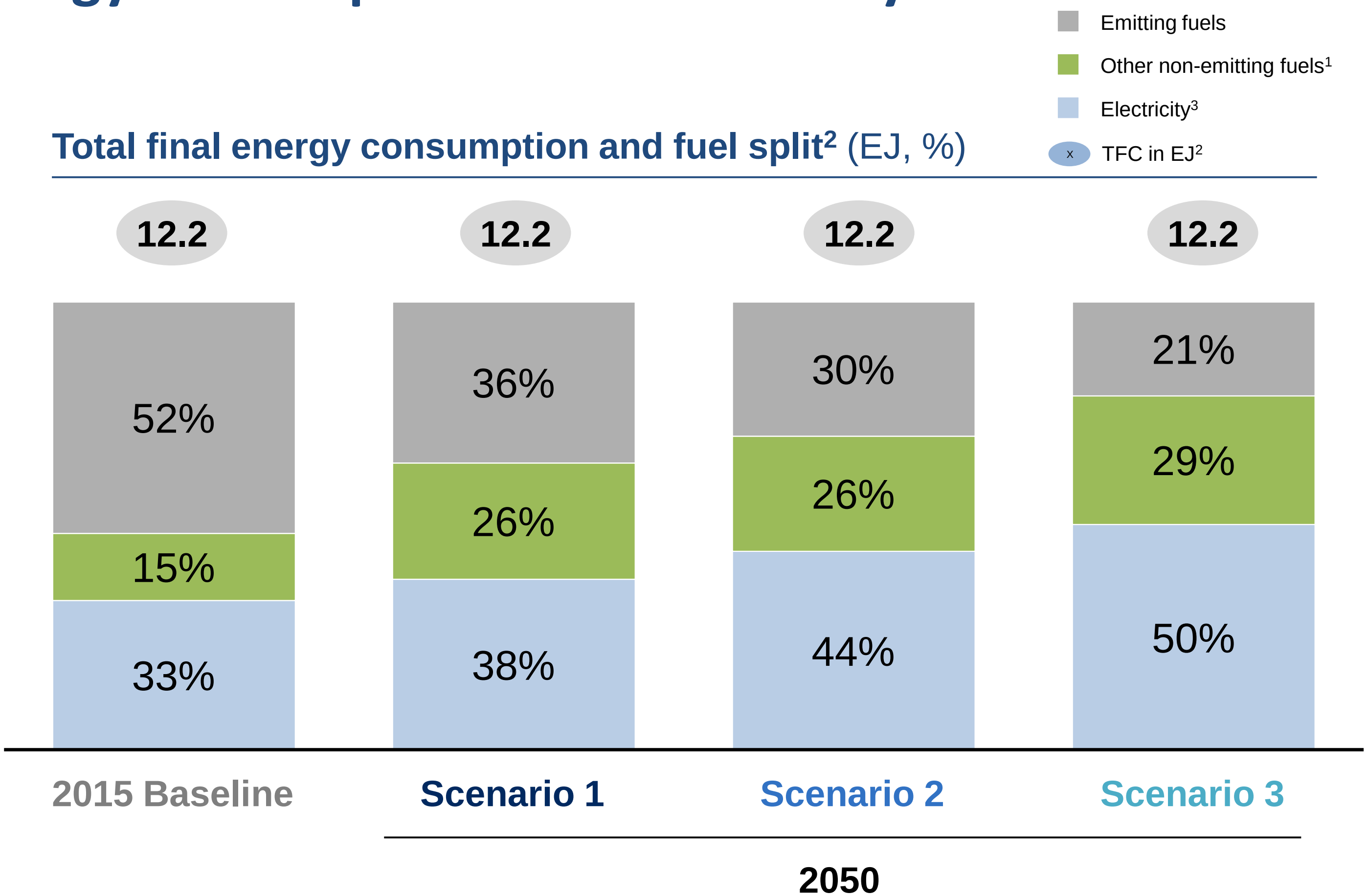
Industry final energy consumption - breakdown by scenario

In industries, a competitive electricity cost against other clean energy carriers and technology breakthroughs drive further adoption of electricity, both directly and indirectly; new solutions (e.g., H2, CCS) become available and cost-competitive as well

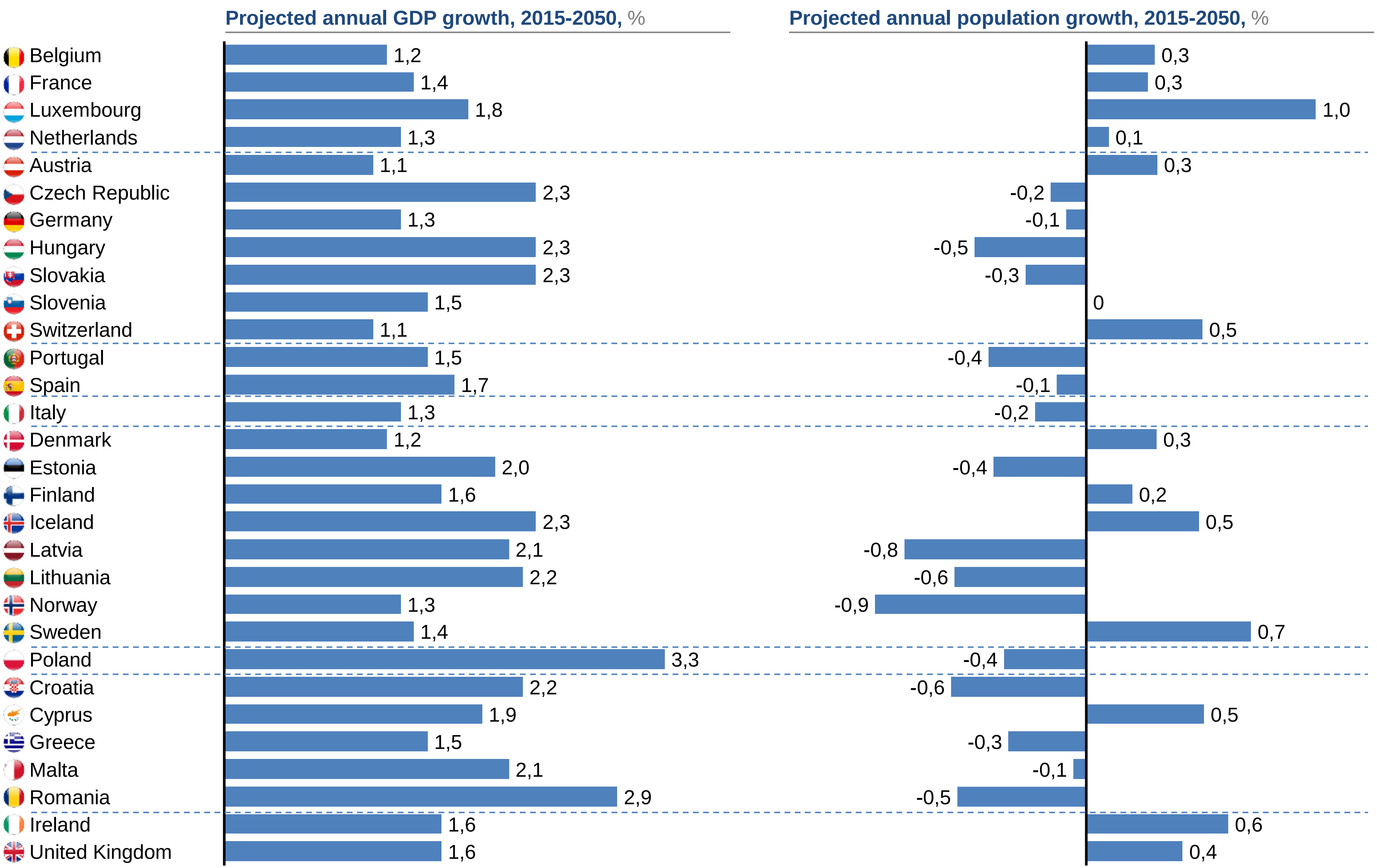


Note: In addition to being energy carriers, some fossil fuels are used as feedstock: e.g., oil is an essential raw material for the production of plastics, gas can be used to foster chemical reactions, and coal as a reductant for certain processes in metal production. The usage of these fuels as feedstock is also expected to decarbonize partially as industry processes evolve and replace these emitting feedstocks with non-emitting alternatives, e.g. biofuels and hydrogen, accounting for 21% to 27% of total feedstock by 2050.

1 Includes non-emitting primary fuels/sources such as geothermal, solar thermal, and biomass but also secondary fuels such as biofuels, synthetic fuels, hydrogen, heat and others
2 Excluding additional TFC from indirect electrification (e.g. hydrogen production, CCS, biofuel production, etc.), 3 Direct electricity consumption

Appendix

Macroeconomics differ by region but are constant across scenarios



SOURCE: McKinsey & Company Global Energy Perspective 2018; IT, ES, PT, GR, PL and CZ changed according with government publications, OECD, FMI or other national entities

Glossary (1/3)

- **Total Final Consumption:** Net amount of energy consumed by the different end-use sectors at the point of consumption (e.g. oil used for heating, electricity used for appliances, coal used for industrial processes, etc.) [in terajoules]
- **Electrification:** Share of electricity in Total Final Consumption (TFC) of Energy [Percent]
- **Direct electrification:** Direct use of electricity as an energy carrier (e.g. power consumed by households, road transportation, etc.)
- **Indirect electrification:** Power demand to produce hydrogen (via electrolysis), gas and other synthetic fuels which can then be used to decarbonize certain industry processes or as a fuel for transports. Examples of applications include steel-production (e.g. hydrogen-DRI-EAF route), chemicals industry (e.g. Ammonia production), or transport fuels (e.g. hydrogen fuel for long-haul truck transport)
- **Additional electricity demand for other decarbonization:** Production of fuels or feedstocks can require power, when these are used to replace other carbon emitting fuels or feedstocks, in an effort to decarbonize certain industrial processes or energy usages. Examples include the production of some bio fuels. (Note: electricity used to power district heating only will be considered in phase 2)

Glossary (2/3)

- **Bioenergy:** Energy content in solid (biomass), liquid (biofuel) and gaseous (biogas) fuels derived from biomass feedstocks, biogas and waste
- **Biofuels:** Liquid fuels derived from biomass or waste feedstocks, mostly ethanol and biodiesel
- **Biogas:** A mixture of methane and other gases produced by the anaerobic bacterial breakdown of organic matter such as agricultural waste, manure, municipal waste, plant material, sewage, green waste or food waste
- **Bio methane:** Biogas that has been cleaned and upgraded to natural gas standards
- **Buildings:** The buildings sector consumes energy mostly in residential, commercial and institutional buildings via space heating and cooling, water heating, lighting, appliances and cooking
- **Commercial:** Energy consumed by commercial (e.g. hotels, offices, catering, shops) and institutional buildings (e.g. schools, hospitals, offices)
- **Decarbonization:** Reduction of total cross-sectoral CO2eq. emissions (incl. land-use, agriculture, waste management) between 1990 and 2050 [Percent]
- **Efficiency factor heat pumps vs. other:** A factor of e.g. 400% considered for heat pump's efficiency relates to the relative efficiency of the average heat pump to fossil fuel boilers (i.e., a heat pump is 4x more efficient than a fossil fuel boiler)
- **Green gas:** Synonym for bio methane (see **bio methane**)

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Glossary (3/3)

- **Hydrogen from methane reforming**: Hydrogen that is being produced by removing the carbon content from methane (in the context of decarbonization this carbon content is then being captured and either stored or used)
- **Hydrogen from electrolysis**: Hydrogen that is being produced via electrolysis (consumes roughly 2.5 GJ of electricity per GJ of hydrogen, efficiency of 40%) - no carbon emissions arise in the process
- **Industry:** Includes energy consumed across all industrial sectors (e.g. iron and steel, chemical and petrochemical, cement, and pulp and paper) but excludes consumption by industries for the generation of power or transformation of energy (e.g. refining)[1]
- **Power-to-X:** Power-To-X identifies technologies that transform surplus electric power (typically from renewable resources) into material energy storage, energy carriers, and energy-intensive chemical products. The term X can refer to one of the following: power-to-heat, power-to-gas, power-to-hydrogen, power-to-liquid, etc.
- **Residential:** Energy consumed by households (urban and rural)
- **Resistance heating:** Refers to direct electricity transformation into heat through the joule effect
- **Synthetic fuels:** Synthetic fuels or synfuels are liquid or sometimes gaseous fuels obtained from syngas. Syngas is a mixture of carbon monoxide or carbon dioxide and hydrogen, won via electrolysis from water
- **Transport:** Energy consumed in the transport sector by moving goods and persons irrespective of the economic sector within which the activity occurs

1 Consumption of fuels for the transport of goods is reported as part of the transport sector, while consumption by off-road vehicles (e.g. mining and construction) is reported under industry

Abbreviations

- **BEV –** Battery electric vehicle
- **CCS –** Carbon capture and storage
- **CCU** – Carbon capture and utilization
- **CE –** Central Europe
- **CNG** – Compressed natural gas
- **CO_2 –** Carbon dioxide
- **CO_2-eq –** Carbon dioxide equivalent
- **EU –** European Union
- **EU ETS** – European Union Emissions Trading Scheme
- **EV** – Electric vehicle
- **GHG –** Greenhouse gas
- **H_2** – Hydrogen
- **ICE** – Internal combustion engine
- **LNG** – Liquified natural gas
- **NG** – Natural gas
- **TCO** – Total cost of ownership
- **TFC** – Total final consumption

Units and Conversion factors

- **Units**
  - **GJ** - gigajoule (1 joule x 10^9)
  - **TJ** - terajoule (1 joule x 10^{12})
  - **PJ** - petajoule (1 joule x 10^{15})
  - **EJ** - exajoule (1 joule x 10^{18})
  - **kWh -** kilowatt-hour
  - **MWh -** megawatt-hour
  - **GWh -** gigawatt-hour
  - **TWh -** terawatt-hour
  - **MtCO2 -** (1 ton of CO2 x $10^{6)}$
  - **GtCO2 -** (1 ton of CO2 x $10^{9)}$

One last word

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