

# Consumer Stock Ownership Plans (CSOPs)

## Consumer Co-Ownership in Renewables in Renewable Energy Communities under the new Renewable Energy Directive (RED II)

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European  
Commission

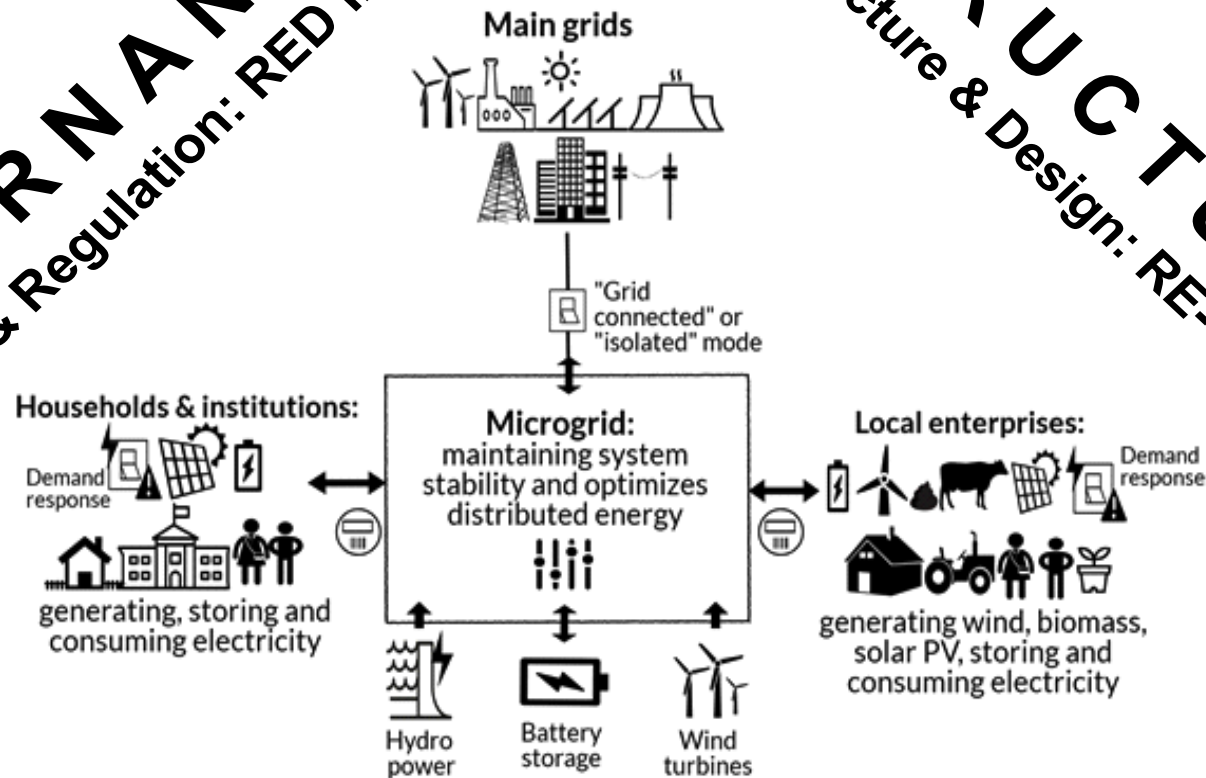
Horizon 2020  
European Union funding  
for Research & Innovation

**SCORE**  
Co-own. Prosume. Renew.  
Supporting Consumer Ownership in Renewable Energies

# Energy Systems of Tomorrow

**GOVERNANCE**  
Rules & Regulation: RED II

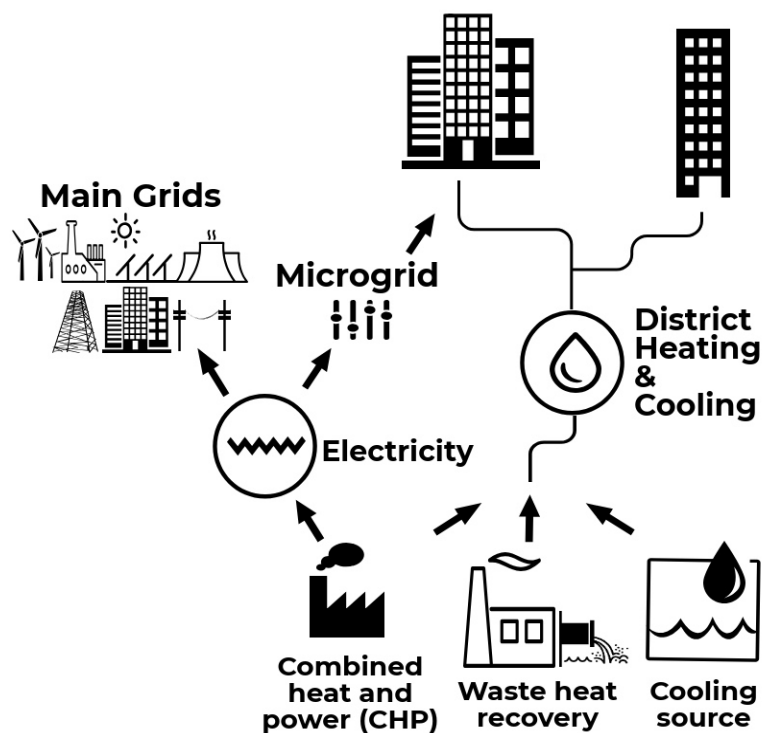
**STRUCTURE**  
Architecture & Design: RE-clusters



**TRANSACTION**  
Contractual Arrangements: Business Model

# Introduction: RECs and RE Clusters – Socio-Technical Mirrors of the same Concept

Renewable Energy Clusters – Characteristics of the new structures:



- **Complementarity of different RES** (to cope with volatility of RE generation; not sufficiently acknowledged in RED II & IEMD)
- **Grid flexibility options** (storage, demand response, and active grid management)
- **Interconnectivity of different actors** (heterogeneity of members of RECs fostering complementarity of load profiles)
- **Bi-directionality of energy flows** (allowing energy sharing of a portfolio of RES, peer-to-peer marketing and sale to the grid)

# ***“Consumers at the Heart of the Energy Markets”*** **-> Slogan or programme?**

**Small revolution** -> RED II & IEMD/R (RE -> electricity + energy)

-> **History teaches us that changes are possible;** expl. social security system -> 150 years ago „Science Fiction“ / today mainstream

**RED II: “Equal Footing” for Renewable Energy Communities**

-> enabling framework to promote and facilitate their development

Preferential Conditions = more than a level playing field (IEMD)

Most important innovations:

## **1. Definition of new categories of actors**

- Individuals & Jointly Acting Self-Consumers (Art. 21 RED II)
- Renewable Energy Communities (Art. 22 RED II)
- Citizen Energy Communities (Art. 16 IEMD)

# “Energy / Electricity sharing” (RED II & IEMD)

**2. Virtual Net Metering** within Energy Communities (as long as the community own two metering points)

***Fossil & Nuclear Energy World:***

- Large, centralized generation
- Unidirectional producer-consumer duality

***Energy Transition RE Clusters:***

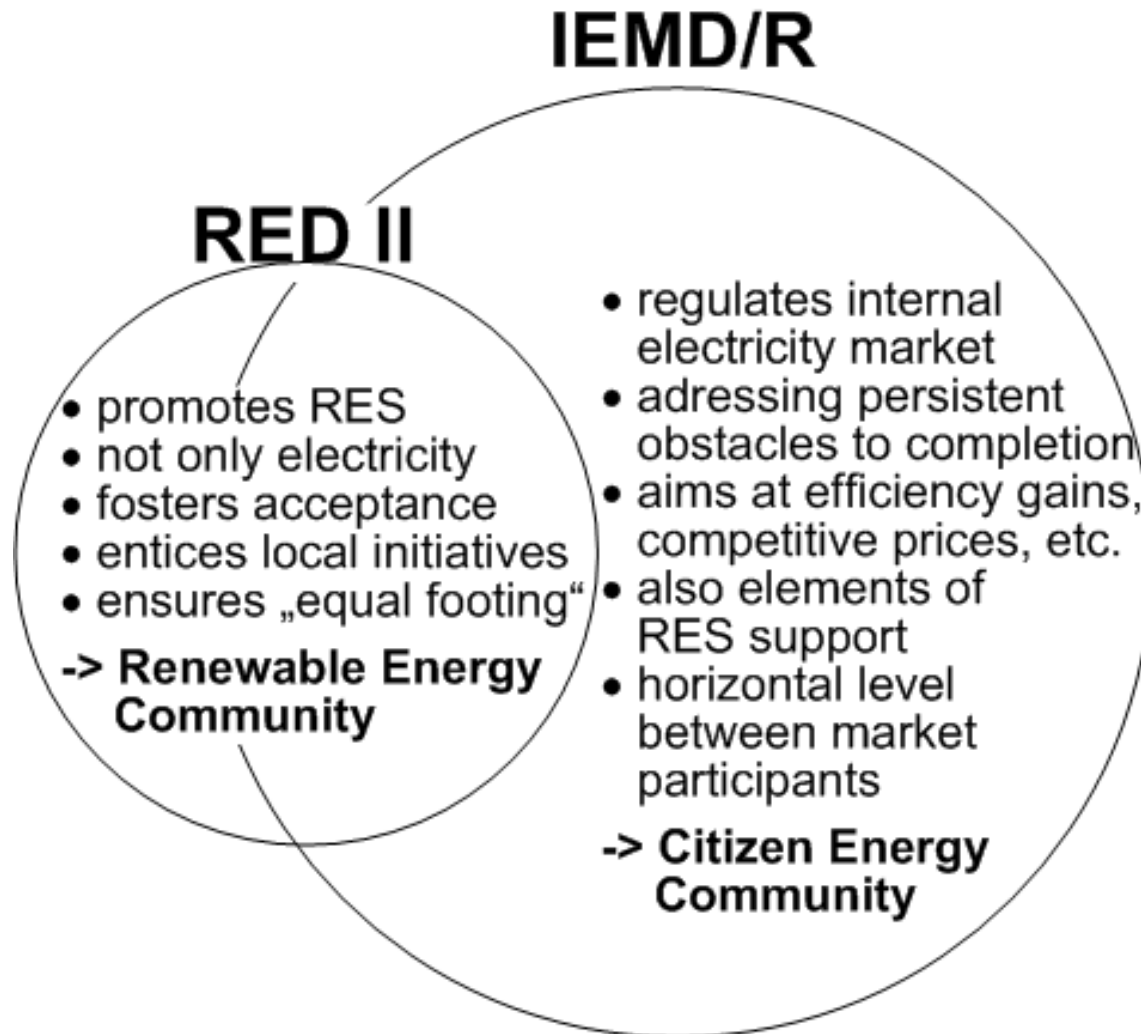
- Complementarity of different energy sources,
- Flexibility & Interconnectivity
- require Bi-Directionality of energy flows

**3. New model for control & ownership** (however not compulsory)

- > “effectively controlled” (RED II & IEMD)
- > “autonomous” (RED II)

# Renewable vs. Citizen Energy communities

## Relation of the RED II and the IEMD/R



# Comparison of Control and Ownership in Energy Communities

Criteria	Renewable Energy Communities pursuant to RED II	Citizen Energy Communities as defined in IEMD
<b>Eligibility</b>	<ul style="list-style-type: none"> <li>• natural persons,</li> <li>• Small and medium sized enterprises,</li> <li>• <u>local</u> authorities, incl. municipalities;</li> </ul>	in principle open to all types of entities;
<b>Primary Purpose</b>	<i>“environmental, economic or social community benefits for its shareholders / members or for local areas where it operates, rather than financial profits”;</i>	
<b>Member-ship</b>	voluntary participation open to all potential <u>local</u> members based on non-discriminatory criteria;	<u>voluntary</u> participation open to all potential members based on non-discriminatory criteria;
<b>Ownership and control</b>	<ul style="list-style-type: none"> <li>• effectively controlled by shareholders or members that are located in the <u>proximity</u> of the RE project;</li> <li>• is autonomous (no individual shareholder may own more than 33 per cent of the stock).</li> </ul>	<ul style="list-style-type: none"> <li>• effectively controlled by shareholders or members of the project;</li> <li>• limitation for firms included in shareholders controlling entity to those of small/micro size (not medium);</li> <li>• shareholders engaged in large scale commercial activity and for which energy constitutes primary area of activity excluded from control.</li> </ul>

# The challenge: Including Heterogeneous Co-Investors under the Roof of a REC

**European energy law does not rule out other private law citizens' or consumer-oriented initiatives than RECs:**

- Advancing RECs by tying benefits of “enabling framework” to compliance with the governance model is an **Opt-in Mechanism**;
- The number of RECs set up will depend on their ability to involve heterogeneous co-investors, key to the success of RE clusters.

**Conventional business models for consumer ownership as a rule do not allow for the combination of different types of co-investors:**

- To what extent does the RED II governance model for RECs actually meet the needs of practice?
- Can RE-CSOPs provide attractive conditions respecting both, the RED II prerequisites and the individual needs of different co-investors?

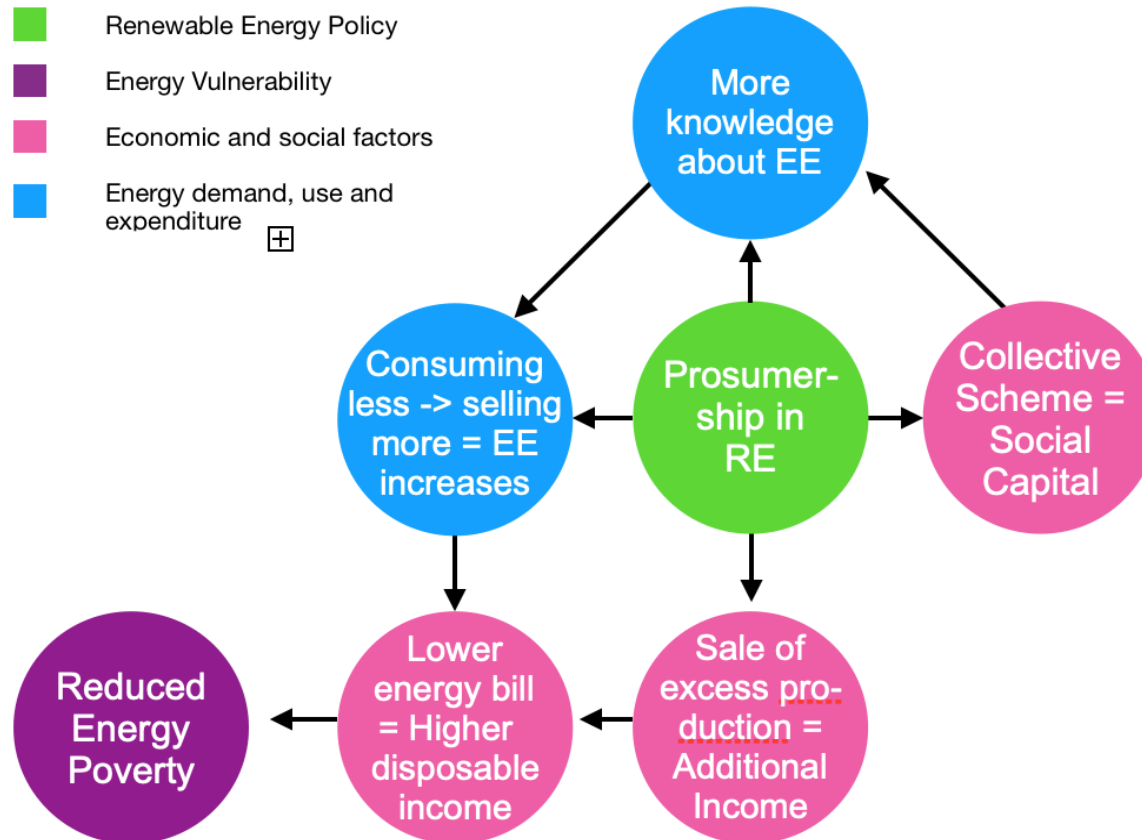
-> **Trusted models as the CSOP** providing flexible low-threshold financing can play an important role as a bridge technology



# Inclusion of Vulnerable Consumers?

## Structural Obstacles rooted in the Welfare State

### Mitigating Energy Vulnerability



### Problem: Recipients of Means-Tested Transfers

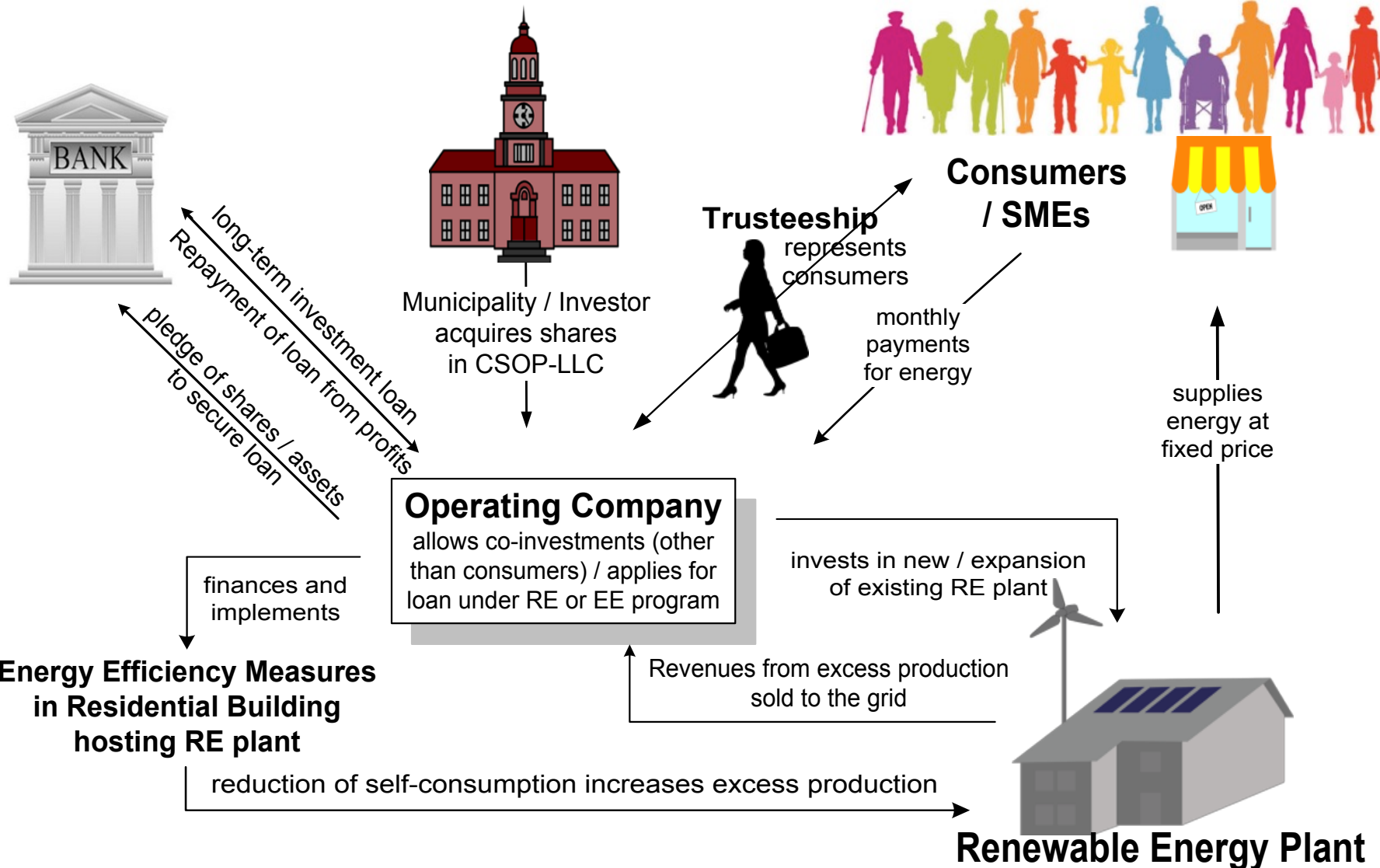
Social transfers become a barrier for Low-Income Households (LIHs):

- To be eligible for social transfer payments they must liquidate all assets
  - Dividends / assets are offset against transfers
- > Strong disincentive to acquire RE co-ownership

**= LIHs are caught in a “welfare dilemma”**

# Consumer Stock Ownership Plans (CSOPs)

= extension of Coop model based on trusteeship



# Unique Selling Points of the CSOP

## **Low-threshold investment, no individual liability & 2<sup>nd</sup> income source**

-> Access to capital credit by pooling individual investments in intermediary entity using leverage to scale up the investment; no expensive micro loans

## **Low entry and exit costs for consumers**

-> easy to transfer shares: only party of trusteeship agreement changes; no need for additional registration with register court or notary public.

## **Protecting consumers while professionalising decision-making**

-> Streamlining decision-making via trusteeship, avoiding fragmentation of voting rights while protecting & advising consumer shareholders

-> Trust agreement defines decisions voted by consumers & those delegated to trustee; day-to-day operations left to trustee (and other co-investors)

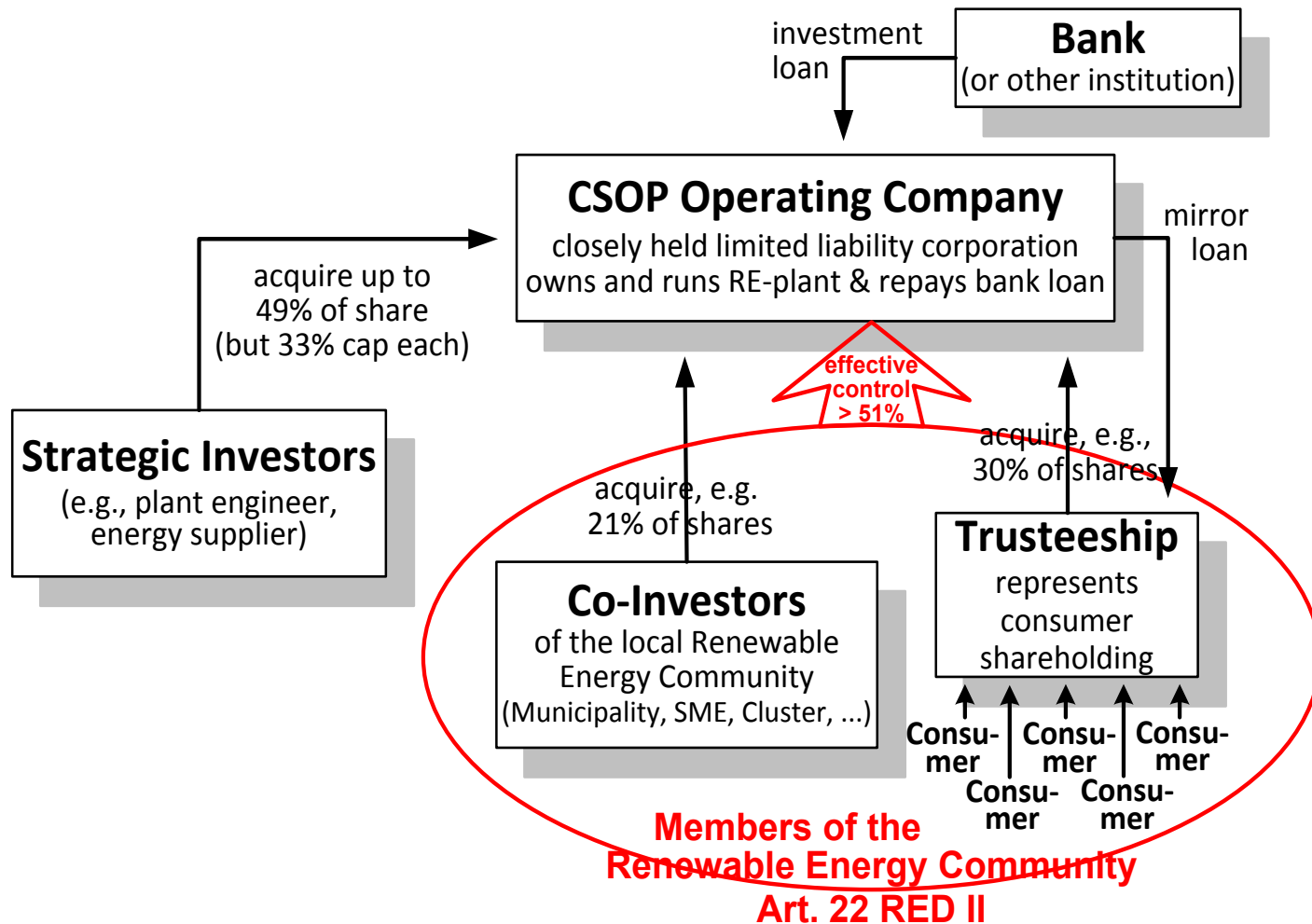
-> Simplified communication for co-investors (municipalities / SMEs): One interlocutor, one phone number; board representation guaranteed.

## **Investments are also attractive for co-investors**

-> Voting rights proportional to shareholding; fluctuation among consumer shareholders does not impact overall shareholder structure in CSOP-LLC

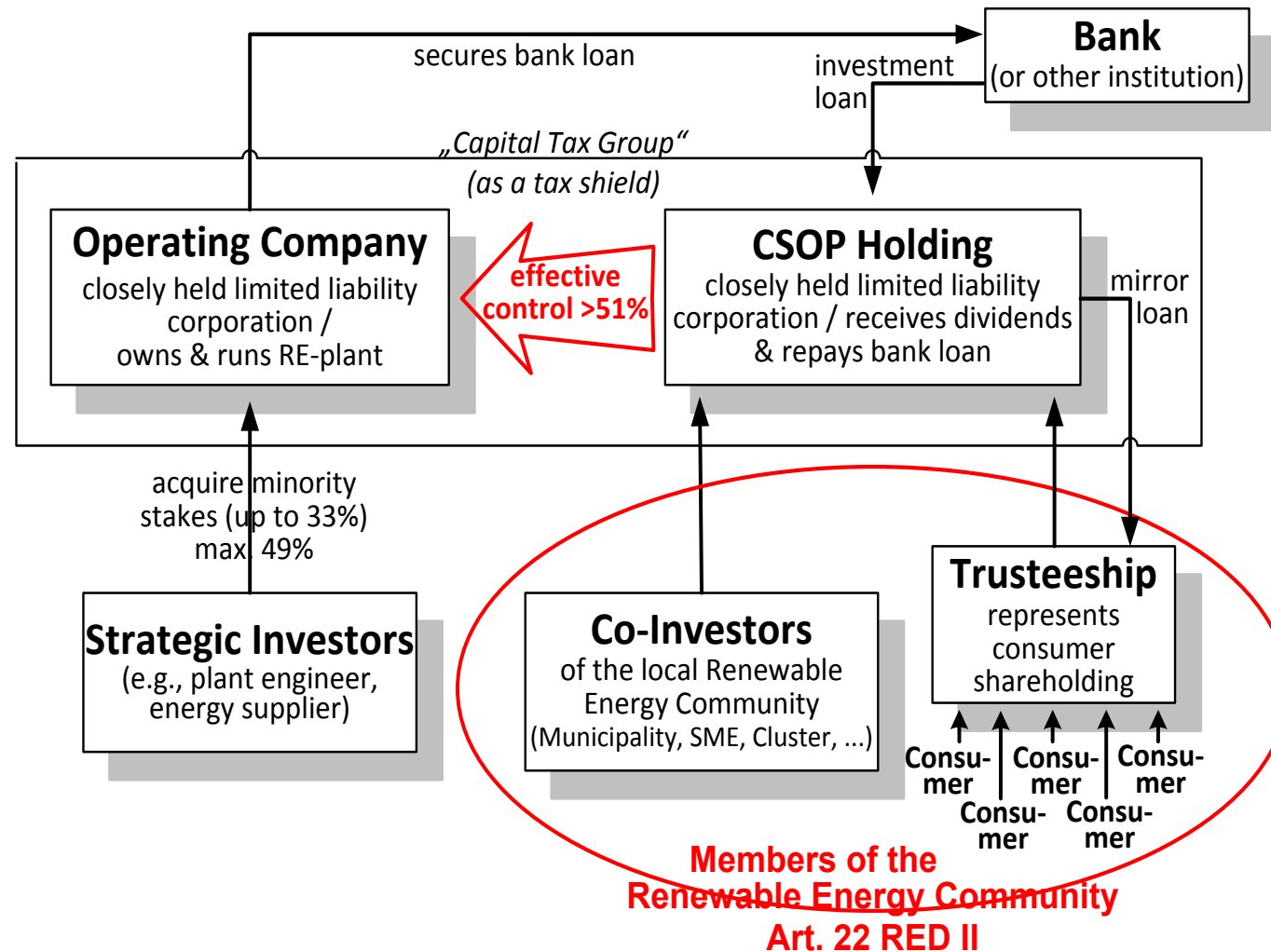
# I. CSOP Options under Company Law

## “Base model”



- ▶ Strategic investor has local long-term interest (e.g., acceptance of wind park project)
- ▶ Does not mind burdening Operating Company by capital acquisition loan for consumers
- ▶ All shareholders are proportionally liable for debt of Operating Company

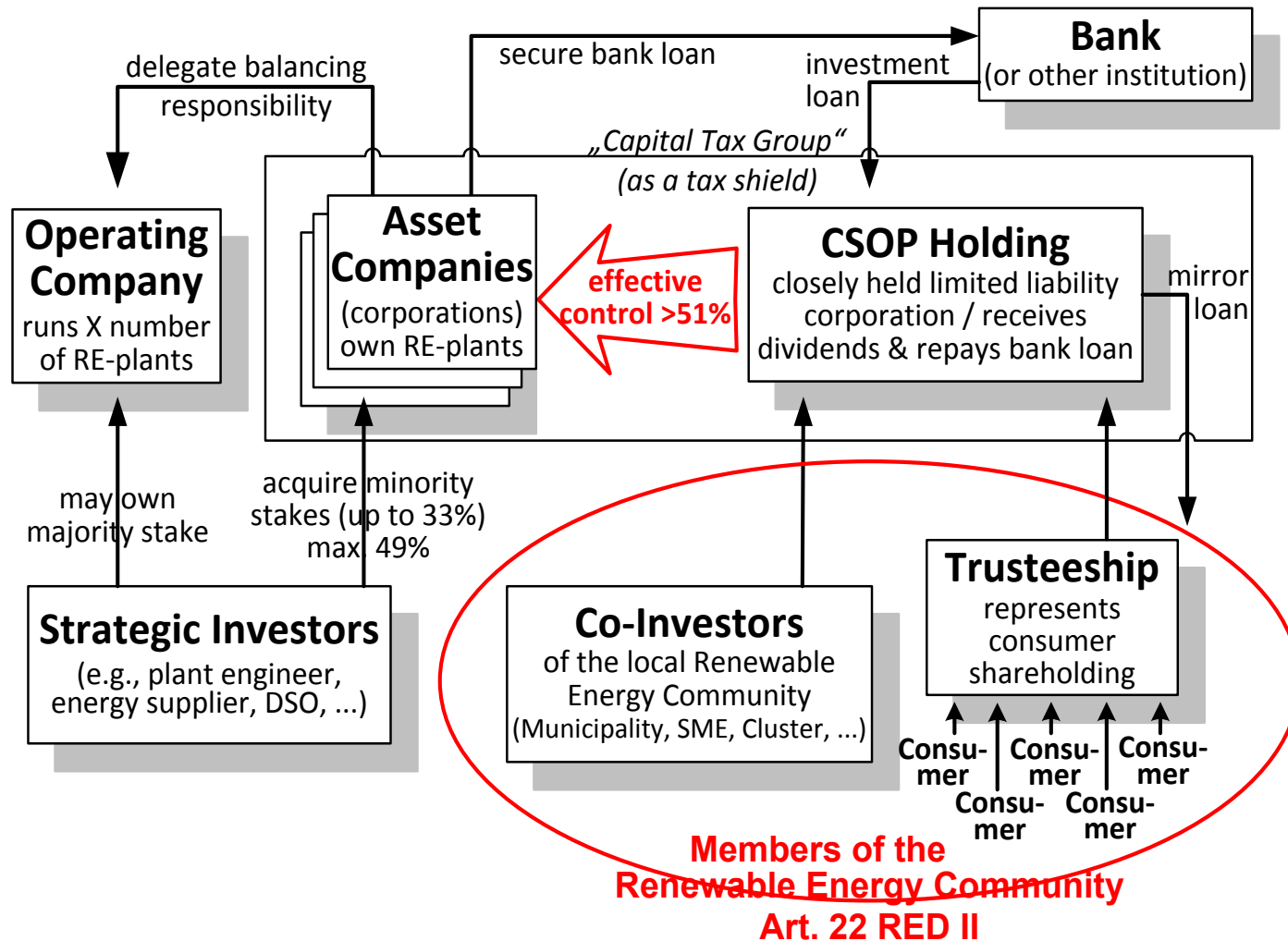
## II. CSOP Options under Company Law “Integrating strategic Investor”



- ▶ Strategic investor has short-term interest (only Holding Ltd. liable for acquisition loan)
- ▶ Operating Company & Holding Ltd. may form “Cap.Tax Group” (national tax law permitting)  
-> Financing cost of loan lower profits of RE-Plant (repayment of loan with pre-tax money)

# III. CSOP Options under Company Law

## “Upscaling / Pooling CSOPs”



- ▶ Operating Company runs x RE-CSOP projects / Asset Company owns RE-plant of CSOP
- ▶ Strategic investor(s) with differing short-/long-term interest (management / capital investment / electricity storage / demand response / DSO operating micro grid / etc.)

# Recommendations to National Legislators for RED II Transposition

## **Recognising the Challenges of RE Clusters in New Energy Systems**

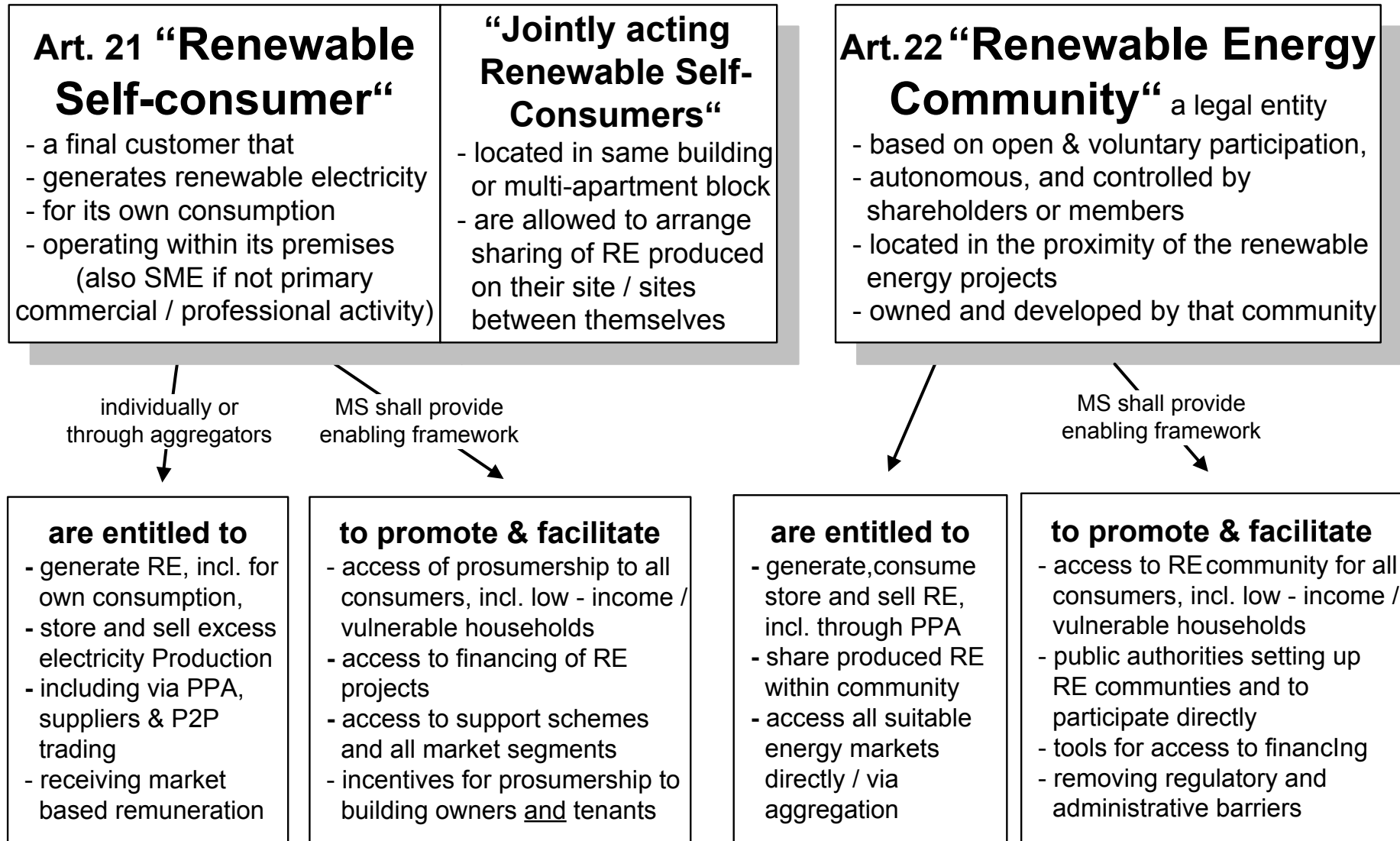
- > With decreasing storage cost & increasing demand for local flexibility, community energy storage systems will become increasingly important;
- > The new European regulatory framework does not sufficiently encourage, or in places even inadvertently discourages, complementarity of RES;
- > The question of operating & managing electricity networks, esp. grid ownership of energy communities both RECs and CECs remains a thorny issue;
- > We observe a lack of concrete proposals in view to facilitate participation of low-income households and vulnerable consumers.

## **Spelling out the “Enabling Framework” for RECs**

- > Elasticity with regard to eligibility requirements of proximity of shareholders;
- > When delegating balancing responsibility to professionals or pooling it for RECs the “enabling framework” should account for increased costs of pioneering RE clusters;
- > For Energy Sharing in RECs network fees should be reduced in proportion to the actual distances in order to maintain the benefits of prosumership in RECs;
- > “Regulatory Sandboxes” (time limited real-world testing environments) needed.

# Prosumership in the recast of the Renewable Energy Directive (RED II, Dec. 2018)

-> transposition in 28 EU Member States into national law until June 2021





# 18 Country Studies & a comparative analysis

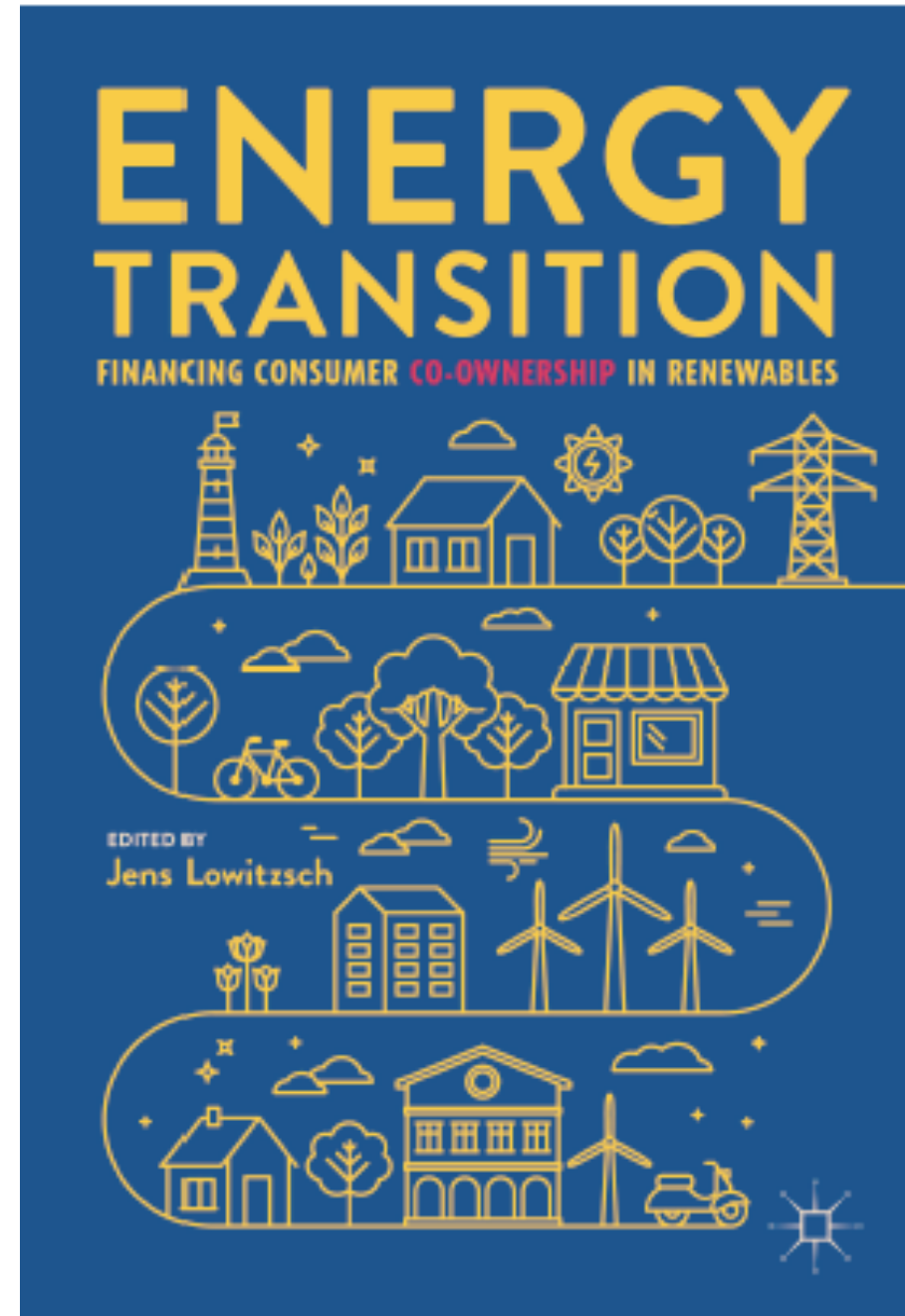
Palgrave/McMillan 2019

**Part I.** Rationale for consumer ownership in renewable energies

**Part II.** Consumer (co-)ownership – Conventional models and Consumer Stock Ownership Plans

**Part III.** Consumer (co-)ownership in renewable energies in 18 selected countries

**Part IV.** Summary of the results and their implications for policy-making



## Latest Relevant Publications:

[Renewable energy communities under the 2019 European Clean Energy Package – Governance model for the energy clusters of the future?](#)

RSER January 2020

[Consumer Stock Ownership Plans \(CSOPs\)—The Prototype Business Model for Renewable Energy Communities](#)

Energies January 2020

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## Disclaimer



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