Interreg Europe Project
– Concept note draft

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In the “Nature of the problem” and “Key issues to address” sections, citations *in italics* are from [Local energy ownership in Europe, an exploratory study of local public initiatives in France, Germany and the United Kingdom](http://www.energy-cities.eu/IMG/pdf/local_energy_ownership_study-energycities-en.pdf), Energy Cities, June 2017.

# Nature of the problem

## Accelerate the energy transition

*Local authorities are increasingly aware of their pivotal role in implementing* [and accelerating] *the energy transition. If Germany remains the most emblematic energy remunicipalisation example, the momentum for public local energy ownership has spread to other European countries, leading increased recognition of local initiatives* [through either full-scale remunicipalisation (the creation of municipal utility companies) or various forms of public-private partnerships] *and the advantages of a locally-rooted approach in terms of reinforcing political influence, reconnecting with citizens and leveraging local economic benefits.*

*“The responsibility for implementing the energy transition at the local level represents an unprecedented challenge in the history of public local energy management. Seeing it as an opportunity is a chance for Stadtwerke to become transition pioneers and to decisively influence the structural transformation of our energy system”.*

## Deliver energy transition promises to all

*The remunicipalisation of public services in Europe and other parts of the world may be interpreted as a paradigm shift. The assumption, prevailing since the 1980s that entrusting the management of public services to the private sector would inevitably lead to reduced costs, more efficiency and higher quality, is now seriously undermined. According to David Hall on the contrary, this has led to a “pendulum swing” in favour of direct management of public services by local authorities, which are showing increased confidence in the necessity and merit of expanding their operational scope and in their capacity to compete with other players in a competitive market.*

*Many authors criticise the unfavourable position of municipal utilities vis-à-vis the large private groups which are subject only to European and national competition rules, whereas local authorities have to comply with both the specific provisions concerning the economic activities of municipalities and the general rules, which constitute a potential competitive distortion, without mentioning the difference in size and market power compared with large private groups.*

# Key issues to address

## Increase local authorities influence on local energy

### Build up local authorities legal and economic expertise to mitigate risks

*An analysis of the economic risks and benefits of a return to public management is also essential to help with the decision-making process and counterbalance other analyses. Sound legal and economic expertise is mandatory when the project involves buying assets from a private operator since listing the assets, setting a selling price and defining the terms and conditions can prove a difficult task.*

*Limiting financial risks for the authority: in the case of heavy investments (takeover of network infrastructure or development of new projects), the prime objective is to find the most appropriate legal vehicle to limit the local authority’s financial exposure as the project holder. Setting up a private law company to benefit from its financial status (including limited liability) seems to be a growing trend to avoid investments in infrastructure being assimilated to local public debt.*

*In most Länder, German local authorities are relatively free to set up or return to public control an energy operator involved in energy production, supply or distribution. Regarding distribution, however, the potential conflict of interest between the municipality as the organising authority (responsible for awarding concession contracts) and the municipality as an economic operator (applying for a concession as a candidate), poses major legal risks in the case of remunicipalisation projects. This legal uncertainty has been used many times by private operators to dispute a public takeover.*

### Develop local authorities operational skills

*Acquiring sufficient expertise: in most cases, and regardless of the country in question, local authorities wishing to bring energy management back under municipal control have limited skills to do so, especially in terms of operational management. It is therefore essential that they rapidly invest in developing these skills, either internally or through external partners (neighbouring municipal companies, consultancies, networks and federations).*

[For example, in the United Kingdom,] *The role of local authorities in the provision of local public services (especially energy) and the number of local public service companies have gradually dwindled following a series of nationalisations in the 1940s, the privatisation and liberalisation agenda initiated in the 1980s and subsequent policies aimed at strongly controlling and discouraging the economic activities of local authorities. In 1990, the whole energy sector was privatised and production, transmission, distribution and supply activities were unbundled. Contrary to Germany and France, no local distribution company survived this massive change and local authorities lost their powers and ownership of the distribution networks.*

## Improve local return on investment in energy

### Position local public companies as local economy engines

*As local economic driving forces, local public companies can play a pivotal role in keeping monetary flows within the local economy:*

* *Rather than contributing to capital flight, their profits return to the local area in the form of public revenue that can be used to develop local public services.*
* *As direct investors, by raising funds for new local projects.*
* *As facilitators (project management assistance, co-financing, etc.), local public companies can encourage and support investments from other local stakeholders.*
* *They can impose criteria aimed at maximising local added value by awarding contracts to local companies to maintain and create jobs and attract new businesses (manufacturers, developers, consultancies, etc.)*

### Adopt business models that withstand commercial competition

*At this stage, drawing up a comprehensive “catalogue” of the various remunicipalisation models would not be appropriate given the wide range of possibilities induced by the variety of local and national objectives and specificities. A non-exhaustive overview of some existing models can however be provided based on the case studies presented in this document:*

* *Integrated operators, the “enforcing agents” of local energy policies: this model is commonly found in large German cities with large-scale Stadtwerke; integrated operators operate along the whole value chain (production, distribution, supply) and are integrated into multi-sector public utilities (energy, water, waste, transport, etc.), like Stadtwerke München.*
* *Public investment instruments: in this model, the development of new projects (essentially renewable energy and energy efficiency projects) is given priority through an investment instrument, sometimes associated with project technical assistance (project management). This model may combine the development of in-house projects with facilitation and participation in third-party projects. Most French regional operators in the energy sector (like SPL Oser or SEM Energie Posit’IF) fall into this category.*
* *Local public energy suppliers: these initiatives are mainly focused on the development of local energy offers, usually with a social agenda (tackling fuel poverty) sometimes associated with energy generation projects: examples include municipal initiatives developed in the United Kingdom, like Robin Hood Energy in Nottingham, Bristol Energy or Our Power in Scotland.*
* *Distribution network operators: although possible, this model exclusively dedicated to the management of distribution networks is quite rare in Germany. In France, a few local distribution companies belong to this category.*
* *Pooling and cooperation initiatives between local companies: depending on the local resources available, partnerships will enlarge or reduce the range of possibilities. In some cases, joining forces with a pre-existing regional operator will be more appropriate than creating several small local instruments. Last but not least, an analysis of local stakeholder networks can inform decision-making on the role given to the public operator: rather than controlling everything, playing the facilitator’s role in third-party projects and striving to maximise the leverage of public spending may prove to be more appropriate.*

## Strengthen the link with citizens

### Participatory governance based on solution co-production

*Reinforcing the relationship between citizens and local authorities is a central component of local energy ownership initiatives and fits into a wider perspective: reinventing local governance models around the notions of co-production and co-development; in other words: “deciding with citizens rather than for citizens”.*

### Participation through investment in projects

*In Germany, the participation of community cooperatives in projects run by municipal utilities is an increasingly widespread phenomenon. In most cases, the Stadtwerke bear the development risks during the design phase before opening the capital to citizens and local cooperatives. This was the case for Stadtwerke Union Nordhessen (SUN), a union of municipal utilities in Northern Hesse which acknowledged the importance of citizen participation by selling up to 74,9% of its projects to community cooperatives and neighbouring authorities. In total, 70 million euros of renewable projects have been financed thanks to this participative model. In the same way, Augsburg’s Stadtwerke appealed to citizens’ savings to finance a hydropower project and two solar stations: the utility, whose financing needs had been estimated at 12 million euros, had to close the offering after just four weeks, having already collected 20 million euros.*

### Participation through investment in public companies

*Furthermore, direct participation by community cooperatives in the capital of Stadtwerke is*

*another possibility. Besides its financial interest, this type of participation also guarantees*

*permanent participation of citizens in all strategic decisions. Wolfshagen’s Stadtwerke,*

*for example, contributed to setting up a local community cooperative which provided 3.8*

*million euros (end of 2016) to the municipal utility, i.e. 25% of its capital. This innovative*

*participative governance model earned the Energy Awards-Stadtwerke in 2015 and inspired*

*many other cities.*

*In Jena, the newly established community cooperative invested 8.2 million euros in the Stadtwerke. Moreover, In Steinfurt, a cooperative with 1,000 members raised 3 million euros for the municipal utility and Haßfurt’s Stadtwerke received 1.5 million euros from a community cooperative to co-finance the partial takeover of the energy distribution networks. The public operator in Titisee-Neustadt (Baden-Wurttemberg) is another emblematic case of cooperation between a local authority and its citizens. This town located in the Black Forest, 12,000 inhabitants, decided to engage a remunicipalisation process in 2011. Due to a lack of sufficient financial resources, the city council immediately decided to form a partnership with its citizens: first through a local cooperative (10% interest) and then by supporting EWS Schönau, the historical pioneer of local and community energy ownership of the region. EWS provided 30% of the capital to buy the networks as well as its expertise in takeover and operational management.*

## Take advantage of synergies with other market players

### Economies of scale

*In addition to the synergies achieved through internal integration, the development of new partnerships can also play a key role in local energy ownership initiatives. Developing pooling and cooperation strategies is indeed the most common solution to alleviate concerns about the lack of efficiency and the loss of economies of scale is often associated with decentralised energy management. According to a recent survey, 77% of German Stadtwerke (82% of small to medium-sized utilities) consider cooperation with other players a winning strategy. Unsurprisingly, preferred partners are first neighbouring municipal utilities (70%), well ahead of technological companies (32%).*

### Experience sharing

*Cooperation and sharing experience are the most important in the case of remunicipalisation projects to compensate for the lack of in-house resources and skills, as illustrated by the setting up of geographical “clusters” in Germany. Pooling skills can also enable small public operators to develop new areas of activity, like energy services, or to overcome barriers such as entering new markets, illustrated by the cases of Trianel or Alterna in France. Finally, the development of partnerships or joining existing public operators is another remunicipalisation lever, a particularly interesting one for local authorities which are lacking the resources in order to set up a new operator.*

# Project characteristics

## Size and scope

Fostering the development of new local public energy companies in Europe might not require a very long project, but a qualitative one, in order to identify effective good practices and set up the right institutional tools to scale them up. This project will not require a large investment but rather relevant partners from across Europe, in particular from Germany.

## Cooperation with complementary European projects

The [Interreg NWE ECCO project](http://www.nweurope.eu/projects/project-search/ecco-creating-new-local-energy-community-co-operatives/) (see excerpt of its summary below) deals with the "Cooperatives" urban energy transition scenario, while we are presently interested in the “Local authorities” scenario. (The two other scenarios are “Prescriptive State” and “Large corporations”, see [the 4-video series on YouTube](https://www.youtube.com/watch?v=hq_pxcEhJ1Y&list=PLIXAicJJXv1Cq1GymN_D6w03xS2k4q_Rc), in French.) Moreover, the ECCO project relies upon REScoop, the European energy cooperatives network, while we are relying upon Energy Cities, the European local authorities in energy transition network.

However, since we know personally the Eolienne en Pays de Vilaine partner of the ECCO project, we will aim at developing cooperations with this European project, since we are convinced that both the “Cooperatives” and “Local authorities” scenarios are in fact complementary and that both will help move forward the energy transition in Europe.

*We aim to accelerate the growth of local Energy Community Co-Operatives (ECCOs), both in effectiveness and in numbers. We will achieve this by bringing ECCOs together and linking them up with relevant sources of knowledge from around NWE to overcome the barriers they face at present. Additionally, we will inspire policymakers and community groups to initiate their own ECCOs and, subsequently, we will facilitate their initiation and development processes. By designing and establishing a transnationally connected Accelerator Network (AN), we build the organisational structure that secures that the support activities are continued after the project has ended. The large number of policymakers and organisations that have already signed up as associated partners to this project are seen as a first testimony of commitment to the results we want to deliver. We start off bottom-up with the combined experience and best practices of 9 existing ECCOs spread around NWE. The transnational work of these pilots will function as 'beacons' for us during the project period and beyond to inspire policymakers and prospective ECCOs. We will reach and engage 50 new ECCOs during the project.*