

# Economics in Brief



No. 25, 26<sup>th</sup> September 2013

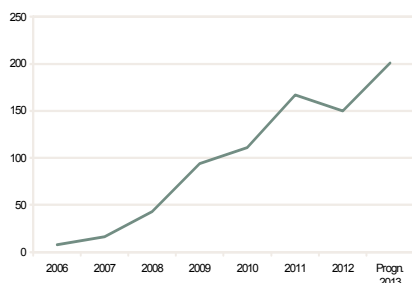
## Energy cooperatives need to professionalise following elections

Author: Dr Rainer Durth, phone +49 (0)69 7431-3607, research@KfW.de

The energy turnaround is facing a growing acceptance problem, particularly due to rising electricity costs and the threat of changes to the natural landscape. Greater citizen participation could help. Electricity network operator TenneT's latest offer of a citizen bond to develop the network has come under fire due to excessive investment risk. However, a different form of participation in the energy turnaround has long been growing in significance: energy cooperatives (energy coops).

The number of energy coops in Germany is growing by nearly 50 % a year. Since 2006, 650 new energy coops have been established. A typical energy coop has more than 200 members. In two-thirds of cases, the minimum contribution is less than EUR 500. To date, the total investment amounts to EUR 1.2 billion, mainly in renewables.

**Figure: Newly founded energy cooperatives**



Source: DGRV; forecast 2013: KfW estimates.

Energy coops are a very promising model for the energy turnaround, as they mobilise substantial additional capital, particularly for the abovementioned growth. In addition, they allow citizens to participate directly in the energy turnaround and raise acceptance of the transition thanks to their democratic structure.

### Why has the number of energy cooperatives risen so sharply?

Three factors have contributed to energy coops' success in Germany:

- The Renewable Energies Act (Erneuerbare-Energien-Gesetz, EEG), which has so far provided energy coops with a stable business model.
- Solid financing conditions; the equity ratio of a typical energy coop is around one half. In the past two years, the average dividend paid to members was approximately 4 %. One-third of their borrowed capital comes from public support.
- The organisation of cooperatives.

In Germany, there are more than 8,000 cooperatives in a wide variety of industries, with a total of more than 20 million members. Under the German Cooperatives Act (Genossenschaftsgesetz) of 1889, as amended in 2006, all cooperative enterprises must join an audit association. The umbrella organisation is the German Cooperative and Raiffeisen Confederation reg. assoc. (Deutsche Genossenschafts- und Raiffeisenverband e. V. – DGRV), which also provides detailed information material and standard texts (e. g. articles of association). In Germany, companies organised as GmbHs (limited liability companies) and AGs (stock corporations) file for insolvency almost four times more frequently than cooperatives.

Energy coops' significance in the financing of wind and solar power plants is growing rapidly, with almost every second renewable energy plant now owned by small investors. The act on the alternative investment fund management adopted this summer will further bolster energy coops'

role in the energy turnaround. Lastly, they are not considered investment companies (which are subject to stricter regulations), unlike the competing legal form involving citizen participation – GmbH & CoKGs, limited partnerships with a limited liability company as general partner.

### What does EEG reform mean for energy cooperatives?

The EEG is about to be reformed. This could result in feed-in tariffs for wind and solar power being reduced and/or being more closely tied to the market price of electricity. The priority feed-in could also be restricted. This would have direct implications for energy coops' business model: they are currently able to pay their members high dividends because they have received secure returns for 20 years. Uncertain and potentially lower dividends would make equity financing more difficult. At the same time, in future there could be less guaranteed income against which to secure lending. This would also make loan finance harder to come by.

### Organisational implications of EEG reform

As a form of citizen participation that is not primarily concerned with profits, energy coops are an ideal means for decentralised implementation of the energy transition. However, energy coop support still needs to be provided in a more targeted manner due to the reduced planning reliability and deterioration in financing conditions. Following the expected changes to feed-in compensation and, possibly, feed-in priority, energy coops will need a new business model. They will have to further diversify their business activities through different locations or energy sources, for example. To be able to achieve this quickly and smoothly, they need technical expertise. At the same time, they have to pay greater attention to their customer base by winning municipal utilities or other major clients, or by systematically developing their own consumption. Citizens' participation in the energy turnaround through energy cooperatives is now at a crossroads: stop growing or push to professionalise. ■