

Renewable Energy CSOPs – Introducing the scenario

by Prof. Jens Lowitzsch, European University Viadrina, lowitzsch@europa-uni.de

1. The idea

To apply Consumer Stock Ownership Plans (CSOPs) to enable consumers of energy utilities without savings or access to capital credit to acquire productive property of renewable energy plants.

2. Brief summary of the CSOP and the problems facing communities that it aims to solve

Property ownership – especially of productive property – is the material foundation of individual political and economic freedom. However, the vast majority of citizens – in particular those of transition countries – do not own any kind of property. Thus they are impeded from wider participation in civil society and from access to economic opportunity, as well as from the attainment of economic security and leisure.

An Energy-CSOP enables the many to become (co-)owners of productive assets, providing a second source of income and access to energy. Turning consumers into prosumers through community financing techniques gives an option between self-consumption and sale to the grid. This is particularly important for poor people with scarce income that live in remote areas.

As the CSOP is designed for regulated markets with certain prices, regulated market access and long-term relationships between producer and consumer, the energy market is predestined. A CSOP trust can be set up for a renewable energy plant (e.g., a biogas reactor, a solar panel, a windmill or a geothermic drill).

3. Region, country, or city this CSOP proposal focuses on

- a) European states have set an ambitious target to reach 27% share of energy from renewable sources by 2030. Europe's green energy leaders, like Germany but also other proactive countries, could become pioneers in the implementation of CSOPs.
- b) Developing countries and/or transition countries, e.g. in North Africa, where most of the capital assets were concentrated in the hands of the autocratic rulers, now ousted and access to energy is often limited in rural areas.

4. How to address the problems facing the poor

The Energy-CSOP facilitates broad equity participation of poor people without assets or savings in a regulated public energy utility. Such entities have the advantage that (a) their regulated status assures that they make profits (thereby reducing the risk of credit financing for their acquisition) and (b) their customer base defines a clearly identifiable group of individuals with an economic relationship to the entity.

The public utility sets up a fiduciary trust, which is managed by independent trustees authorized to borrow funds for the acquisition of shares in the utility on behalf of the energy consumers. The shares acquired by the trust are allocated among the CSOP consumer-beneficiaries in proportion to their respective energy purchases from the utility. All of the utility income in excess of depreciation associated with the CSOP shares must be distributed to the CSOP. These revenues are used to repay the acquisition loan assumed by the CSOP. Once this debt is amortized the revenue to the CSOP is distributed as income to the consumer-beneficiaries.

CSOP financing is most suitable for smaller energy producers in particular for new investments in the renewable energy sector. The advantage of public utility funding through a CSOP is that the regulatory authority can provide the guarantee against risk to the financing lenders by agreeing to set rates for the regulated utility at levels sufficient to assure amortization of the acquisition loan.

5. Specific population the CSOP is designed to support.

- a) Small communities in European countries would benefit from the increased share of renewable energy resources, but foremost from the decreased prices for electricity and an additional income.

b) Energy access is crucial for economic growth and improving the quality of human life; demand for energy in developing countries is growing. However, with 15% world population and 5% of global energy production, per capita energy consumption in Africa is only one third of the world average (only one sixth after exclusion of traditional biomass). A large number of households in the North African transition countries – mostly poor and in remote areas – lack access to electricity.

6. What makes the CSOP an innovative approach to solving this problem

Conventional solutions to the dilemma described often propose to redistribute existing capital instead to broaden access to the formation of new capital. However, confiscating capital to redistribute it would violate private property rights. Further, the costs of redistribution are substantial and in the form of elevated taxation may hamper economic development.

The counter model – introduced in 1958 by lawyer and investment banker Louis O. Kelso – is based on the financial infrastructure of a free market democracy: Instead of depriving owners of their private property, non-owners are enabled to become owners. Although Kelso's Employee Stock Ownership Plans (ESOP) has become part of corporate America (10,000 ESOPs with more than 13.5 mln. participants in 2013) the CSOP-solution never had a similar break through.

To facilitate decentralised energy production from renewable sources via CSOPs is particularly innovative in respect to the current structure of the energy market in Europe.

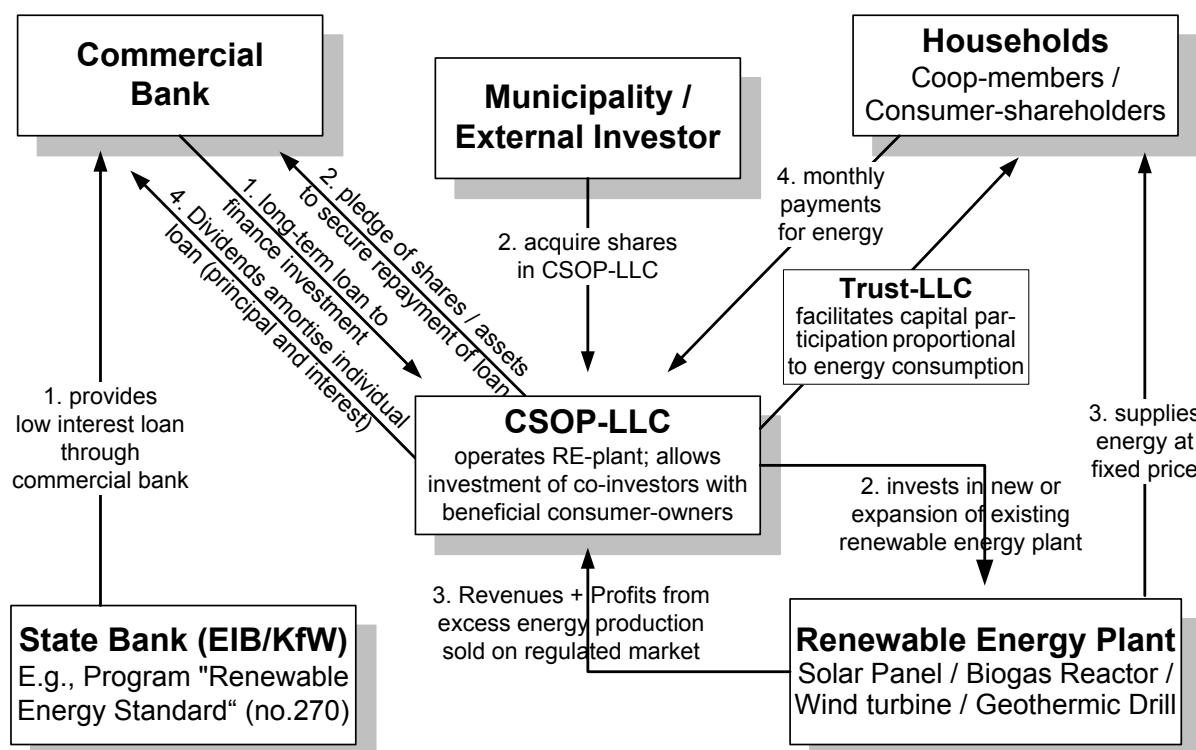
7. Barriers to solving this problem – How does the CSOP address these barriers

The economy does not gratuitously provide either capital instruments or confer ownership. Finance performs these functions by allocating capital credit needed for investment. But there is a condition: to qualify for a capital acquisition loan the borrower must put up collateral as insurance that the loan will be repaid. Those without capital assets are excluded from capital credit used to create new capital.

While the majority of the population deprived of assets (and thus collateral) is saving through renouncing consumption, a small wealthy minority profits from access to capital credit. This is the essence of investment: Costs (also those of credit financing) are covered from the future earnings of the acquired property.

Government guarantees for loans to CSOP-trusts, whose beneficiaries have insufficient assets to guarantee loans directly can solve this problem. This is a simple extension of the practice to offer government loan guarantees to support regional economic development.

8. Image that illustrates the CSOP



9. The steps to implement the Energy CSOP

- (1) Setting up of a trust vehicle (here a fiduciary LLC) administrating the consumers' accounts; the share capital is contributed by the participating households;
- (2) Completion of trust agreements (trustee/consumers) defining the value of their share in the CSOP corresponding to the energy consumption of each households;
- (3) Setting up of an intermediary entity, the CSOP-Holding LLC (100% daughter of the fiduciary LLC), which invests in an existing or a new energy plant;
- (4) Completion of supply agreements between consumers and the CSOP-Holding LLC, designed according to standard energy contracts with the usual conditions;
- (5) The CSOP-Holding LLC applies for a bank loan (e.g., to EIB or KfW) and provides collateral to secure the loan;
- (6) Repayment of loan: Interest & principal are serviced by revenues from the sale of the power plant's surplus energy production and each household's monthly payments for energy;
- (7) After the repayment of the capital acquisition loan profits from the power plant are paid to the consumer-shareholders as dividends in proportion to the amount of their shares.

10. Key stakeholders & positions (whose involvement will ensure success)

- **Consumers**

CSOP participants become co-owners of local energy facilities achieving energy autonomy and – in the long run – receiving additional income. Via investments in the energy infrastructure, other citizens gain more efficient access to electricity, available at lower prices.

- **Ministry of Finance**

Additional income from (co-)ownership in local decentralised renewable energy plants boosts the regional economy. In the long term the CSOP leads to growth in GDP and an increase in tax revenue. Furthermore the “green investments” create new jobs contributing to revenue.

- **Ministry of Economy / Heads of Government**

Facilitating the share of renewable energy creates a modern, competitive, technologically advanced energy sector and profitable energy markets. The diversification of energy sources decreases the dependency of energy import having a positive impact on energy security.

- **Ministry of Environment**

European states have set an ambitious target to reach 20% share of energy from renewable sources by 2020; for example Germany has declared the “Energiewende”, France declared “la Transition Énergétique”. The environment benefits from an increased use of clean technologies.

- **Leading energy companies**

Usually big conglomerates with quasi-monopoly status, they may fear increased competition. Offered an opportunity to invest in the project, they may choose to get involved.

- **Transmission system operators**

The newly established power stations would use the existing power grid and transmission system operators. Using the grid creates additional revenue from transmission fees.

- **Municipal utilities**

The introduction of CSOP increases competition in the sector and stimulates the economic growth of the companies by their increased activity.

- **Financial sector -> e.g., EIB, KfW & commercial banks**

Commercial banks make preferential loans to CSOPs implementing programs of state banks (e. g., KfW's program “Renewable Energies 271”) and profit from interest payments.

- **Environmentalists**

The environment benefits from an increased use of clean technologies. Participation in the decision-making process ensures a democratic bottom-up approach. This facilitates the process to find new venues for the CSOP investments.