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INTEGRATING
COMMUNITY
POWER IN ENERGY
ISLANDS

Energy Community Definitions

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Abstract
Due to the different understandings of the term 'energy community' this document presents a detailed overview of all definitions.

Keywords
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I BACKGROUND

According to the grant agreement: The COMPILE project aims to activate and use **Local Energy Systems** (LESs) in order to support the fast growth of energy production from renewable energy sources (RES) in constrained networks, and foster the transition from centralised system with passive users into a flexible network of active users featuring **energy communities**. The project also focuses on showing the benefit of cooperation through energy communities that will solve current grid problems in a coordinated way, avoiding the costly network reinforcement while leading to an increased RES share.

Furthermore, the grant agreement states: The vision of COMPILE is an interplay of flexible energy community-supported networks with currently centralised systems increasing societal benefit with optimized planning. This leads to a more economical use of resources, help local businesses and transition local areas to a renewable and decentralised system.

2 THE ISSUE

Energy Communities are at the heart of the COMPILE project. Nevertheless, there are different understandings of the term ‘energy community’. First, there are a number of different terms that stakeholders use to describe energy communities. In the COMPILE proposal the term was not specifically defined and the EU legislation process was still underway. In the project proposal a distinction is made between the ‘technical’ aspects (local energy system, or LES) and the ‘social and organisational’ aspect (energy communities).

The EU regulatory framework is of major relevance for the COMPILE demos, and the project promises to contribute to national policy making in line with the EU’s Clean Energy for All Europeans legislative package. Therefore, we propose to follow the definitions established at the EU level. In relation to “energy communities”, there are two new official EU level definitions, namely: ‘Citizen Energy Community’ and ‘Renewable Energy Community’. During the process of arriving at these definitions, many stakeholders also got used to the term ‘Local Energy Community’ which was abandoned and is thus obsolete in the regulatory sense. This latter term has been perceived as a technical concept used to describe specific activities, such as collective renewables self-consumption or micro-grids/local energy systems.

The multitude of terms, and the lack of understanding regarding the terms themselves, as well as their inter-relationships, could make communication complicated and confusing throughout our project discussions. Therefore, we would like to put forward an explanation of the various definitions that appear in European law.

This explanatory note is for internal purposes only. The goal of this note is to help provide for a common understanding in the consortium around: 1) the concept and definitions of energy communities, and 2) their relationship (distinctions and overlaps) with local energy systems.

3 THE NEW EU DEFINITIONS OF ENERGY COMMUNITY IN EU LEGISLATION

The final Clean Energy Package contains two definitions of energy community: Citizen Energy Community (CEC) which is contained in the provisionally agreed recast Electricity Directive, and Renewable Energy Community (REC), which is contained in the recast Renewables Directive.

Article 2(16) Renewables Directive – ‘Renewable Energy Community’	Article 2(11) Electricity Directive – ‘Citizen Energy Community’
<p>A legal entity:</p> <ul style="list-style-type: none">(a) which, in accordance with the applicable national law, is based on open and voluntary participation, is autonomous, and is effectively controlled by shareholders or members that are located in the proximity of the renewable energy projects that are owned and developed by that legal entity;(b) the shareholders or members of which are natural persons, SMEs or local authorities, including municipalities;(c) the primary purpose of which is to provide environmental, economic or social community benefits for its shareholders or members or for the local areas where it operates, rather than financial profits.	<p>A legal entity that:</p> <ul style="list-style-type: none">(a) is based on voluntary and open participation and is effectively controlled by members or shareholders that are natural persons, local authorities, including municipalities, or small enterprises;(b) has for its primary purpose to provide environmental, economic or social community benefits to its members or shareholders or to the local areas where it operates rather than to generate financial profits; and(c) may engage in generation, including from renewable sources, distribution, supply, consumption, aggregation, energy storage, energy efficiency services or charging services for electric vehicles or provide other energy services to its members or shareholders;
<p><i>While not part of the definition, RECS are entitled to produce, consume, store and sell renewable energy, including through renewables power purchase agreements, to share renewable energy within the community, and to access all suitable markets</i></p>	

4 WHAT ARE ENERGY COMMUNITIES UNDER THE CLEAN ENERGY PACKAGE?

The recitals of the Electricity Directive and the Renewables Directive provide an explanation of what CECs and RECs are:

- **Citizen energy communities constitute a new type of entity due to their membership structure, governance requirements and purpose** (purpose being framed around provision of services/benefits for members or the local community – as opposed to profits).¹
- Similarly, RECs constitute a new type of entity that can be distinguished from other market players based **on, inter alia, size and ownership structures**.²

Before looking at any particular activities that an energy community could carry out in the market, therefore, the Clean Energy Package distinguishes CECs and RECs as a non-commercial type of market actor. This is one of the major reasons why Member States are required to ensure they have a level playing field, or ‘equal footing’, to operate across the market without discrimination.

The definition of CECs identifies different types of activities that CECs could engage in. This is not meant to be looked at through one particular frame, for instance as an entity that performs an integrated set of activities. Rather, it is acknowledgment that the CEC organisational structure can be used by citizens, small businesses and local authorities to participate in activities across the energy sector. While integrated activities may be foreseen, it is not the main reason for listing the activities in the definition. Also, activities not specifically mentioned in the relevant articles are not excluded.

Regarding governance, RECs generally follow the same logic, except they have more stringent requirements and are rooted in local communities (i.e. a ‘proximity’ requirement). Activities of RECs are also technology-specific around renewable energy sources. The potential activities (production, consumption, sale, sharing and participation in all suitable markets) are not listed in the definition, and instead are referenced in Article 22 of the Renewables Directive.

¹ Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources (recast), OJ L 328, 21.12.2018, p 82 (Recast Renewable Energy Directive), Recital 71.

² Provisional text adopted by European Parliament legislative resolution of 26 March 2019 on the proposal for a directive of the European Parliament and of the Council on the common rules for the internal market in electricity (recast) (COM(2016)0864 – C8-0495/2016 – 2016/0380(COD)) (Provisional Recast Electricity Directive), Recital 46.

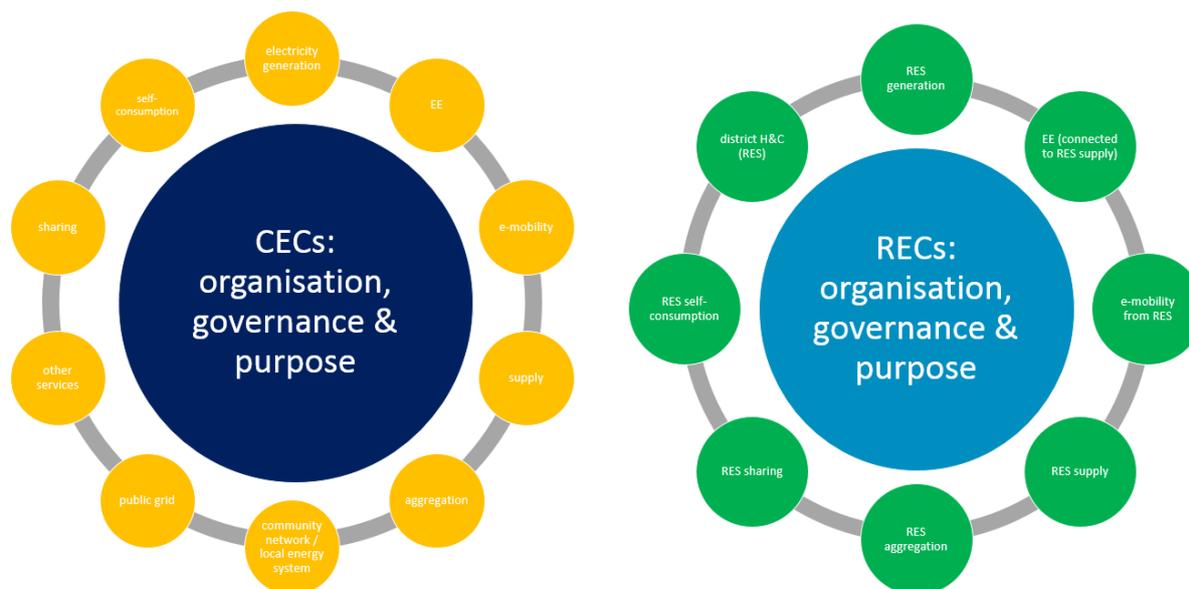


Figure 1: Doing many things - comparing the activities of CECs and RECs

5 RELATIONSHIP BETWEEN CECs AND RECS

There is a fairly clear relationship between these two definitions. At their core, both definitions describe a way to ‘organise’ collective cooperation of an energy related activity around specific ownership, governance and a non-commercial purpose (as opposed to traditional market actors). The primary purpose of both CECs and RECs is to provide environmental, economic or social community benefits for its members or the local areas where they operate rather than financial profits. Both definitions emphasise participation and effective control by citizens, local authorities and smaller businesses whose primary economic activity is not in the energy sector. Finally, participation in CECs and RECs must be open and voluntary.

The differences between the CEC and REC definitions also help to explain the overall relationship between the two definitions: namely, that *RECs can generally be seen as a subset, or type, of CEC*. This helps rationalise the narrower geographical scope of activities of RECs compared to CECs. Furthermore, where the participation, ownership and governance criteria RECs differ from the CECs, in all but one instance (SMEs can effectively control a REC, while this is limited to small and micro enterprises in the case of CECs) it takes a narrower, or stricter, approach. This difference represents a small but potentially significant incoherence in the European framework.

This relationship is reinforced by the fact that there is a stronger obligation for Member States to promote the development of RECs, not just provide a level playing field (contrasted with CECs). In particular, the Renewables Directive requires Member States to develop national ‘enabling frameworks’ to promote and facilitate the development of RECs, including inter alia provide capacity building, tools to facilitate access to finance and information, ensure access to vulnerable and low-income households, and remove unjustified regulatory and administrative barriers. Member States are also required to take RECs into account when designing their national renewable energy support schemes. In exchange for these additional benefits, the eligibility requirements for qualifying as a REC are more restrictive.

**Eligibility criteria for Renewable Energy communities (RECs):
more stringent than for Citizen energy communities (CECs)
in all but one respect...**

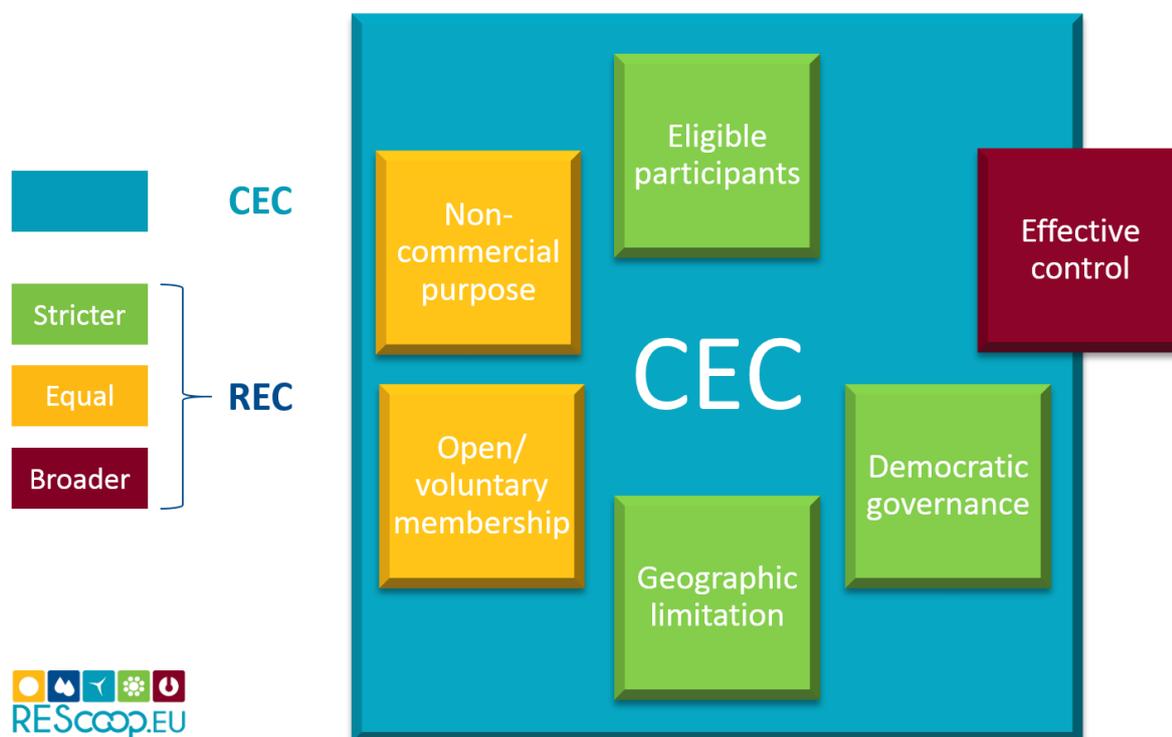


Figure 2: Comparing eligibility criteria of RECs and CECs

6 WHAT IS THE RELATIONSHIP BETWEEN ENERGY COMMUNITIES AND ACTIVITIES RELATED TO LOCAL ENERGY SYSTEMS?

6.1 ENERGY COMMUNITIES ARE NOT ATTACHED TO A SPECIFIC ACTIVITY

The prime aim of the EU provisions on energy communities is not to define specific activities but to acknowledge their challenges in operating in the market, and to ensure they are not excluded from the market through implicit or explicit discrimination, so they can participate on a level playing field with other market actors. Therefore, the list of potential activities for each type of energy community that is included in the directives are to 1) acknowledge the major activities energy communities already – and in the future – can perform; and 2) ensure that energy communities are not prevented from undertaking these activities.

It is important to note that there is a lack of clarity in the demarcation of each of the activities that are implied from the directives (in particular the Electricity Directive). For instance, while energy production, consumption, sharing, and distribution are mentioned for both types of energy

community, for RECs ‘sale’ is specifically mentioned while ‘supply’ is the term used for CECs. These differences exist due to the separate political processes for the directives. The ability to sell or supply - directly through PPAs or through interaction with the market (wholesale and retail) - should be implied for both CECs and RECs.

Below, collective renewables self-consumption and network operation (particularly in the context of local energy systems) are discussed as two of the activities with major relevance for the COMPILER demos.

6.1.1 Collective renewables self-consumption

In the Renewables Directive, Article 21 governs the technical aspects of carrying out the ‘activity’ of individual and collective **renewables self-consumption**. Article 2 also provides definitions for both individual self-consumers (namely: ‘renewables self-consumer’) and collective self-consumption (namely: ‘jointly acting renewables self-consumer’).

Article 2(14) Renewables Directive – Renewables self-consumer	Article 2(15) Renewables Directive – Jointly acting renewables self-consumer
a final customer operating within its premises located within confined boundaries or, where permitted by a Member State, within other premises, who generates renewable electricity for its own consumption, and who may store or sell self-generated renewable electricity, provided that, for a non- household renewables self-consumer, those activities do not constitute its primary commercial or professional activity;	a group of at least two jointly acting renewables self-consumers in accordance with point (14) who are located in the same building or multi-apartment block;

As REC and renewables self-consumption provisions are in separate articles, renewables self-consumption should be seen as a potential activity of, e.g., a REC or CEC, among other potential activities they could undertake. Equally, both individual and joint self-consumption can be undertaken outside of an energy community by any business model, as shown in Figure 2. Due to Renewables Directive’s focus on renewable energy (as opposed to the scope of the recast Electricity Directive), the nature of the involved energy in Figure 2 corresponds to the scope of RECs.

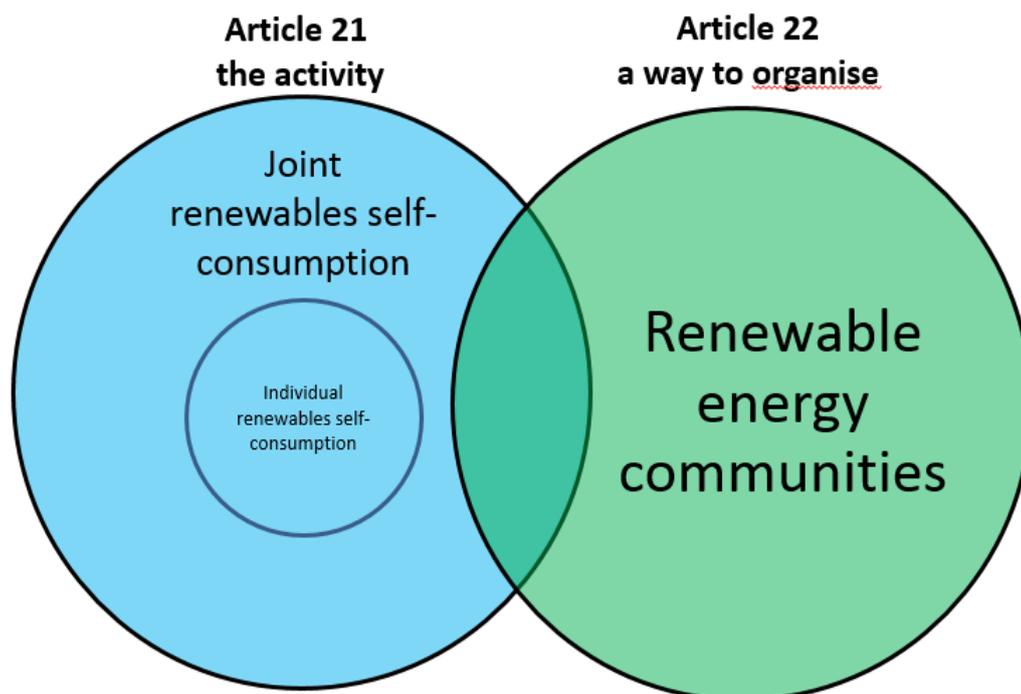


Figure 3: The link between renewables self-consumption as an activity and renewable energy communities as a way to organise

6.1.2 Network operation

In the CECs Article (Article 16) of the Commission’s proposal for the recast Electricity Directive, it proposed to give energy communities the right to “own, establish, or lease ‘**community networks**’ and to autonomously manage them.” Therefore, network ownership and management is foreseen as one concrete activity for energy communities (among many others such as generation, supply, provision of energy efficiency services, aggregation, etc).

While the final version of the Electricity Directive does not define ‘community networks’, it provides two specific contexts in which energy communities can be engaged in network operation:

- The public grid; and
- Closed Distribution Systems (which already exist under Article 38 of the Directive).

The Recitals of the Electricity Directive provide further clarity on this point:

“The Directive foresees a possibility for Member States to allow a citizen energy community to become a distribution system operator either under the general regime or in accordance with Article 38 as the so-called “Closed Distribution System Operator.” Here, the ‘general regime’ refers to the public grid.

Article 38 focuses on industrial and commercial actors and largely excludes the supply of households. Nevertheless, by virtue of CECs provisions focusing on empowering household consumers, this article may also be applicable to the COMPILER demos. In both cases, the energy community would be bound by all relevant obligations and restrictions that apply to a distribution system operator (DSO), including unbundling rules. Nevertheless, under Article 35, Member States may exempt DSOs that serve less than 100,000 final customers from most EU unbundling rules. Article 38 also allows Member States to exempt DSOs that operate closed distribution systems from prohibitions on the development,

ownership or management of energy storage facilities and electrical vehicle charging points, as well as requirements to procure flexibility.

6.2 THERE IS NO EXCLUSIVITY BETWEEN ENERGY COMMUNITIES AND ANY PARTICULAR ACTIVITY RELATING TO LOCAL ENERGY SYSTEMS (E.G. CLOSED DISTRIBUTION SYSTEMS OR COLLECTIVE SELF-CONSUMPTION)

The aim of the dedicated provisions on energy communities is not to provide them with an *exclusive* right to engage in activities like collective self-consumption or the establishment and operation of closed distribution systems. Its aim is to ensure energy communities have a right to engage in these activities. The recitals to the Electricity Directive also states that “***The definition of citizen energy communities does not prevent the existence of other citizen initiatives such as those stemming from private law agreements.***” If applied to local energy systems, therefore, it is clear that if Member States choose, they can allow other types of commercial and non-commercial market actors (i.e. non-energy communities) to establish, own and manage local energy systems. Indeed, industrial and commercial enterprises are already allowed under Article 38 to set up closed distribution systems.

Under Article 16 of the Electricity Directive on CECs, energy communities could potentially become owner or manager of a closed distribution system (where an energy community undertakes this activity it would be labelled as a ‘community network’). However, due to the discretion of Member States to allow CECs to establish and/or manage networks, the Directive does not even foresee CECs as sitting atop any hierarchy for types of market actor that could engage in this activity. All the Directive does, therefore, is provide visibility for CECs to be able set up and manage community networks and require a clear regulatory framework where the activity is allowed.

Article 21 of the Renewables Directive provides all final consumers with a right to engage in renewables collective self-consumption. Furthermore, Article 21 allows self-consumers’ installations to be owned or managed through third party ownership and leasing arrangements. This suggests no prioritisation for RECs.

6.3 ENERGY COMMUNITIES ARE A SPECIFIC WAY TO ORGANISE AN ACTIVITY – NOT THE ACTIVITY ITSELF

What the above explanations reveals is that the act of organising activities around a local energy system, such as collective self-consumption or a closed distribution system, does not in itself constitute an energy community. These activities would only be identified as an energy community if they are organised in a way that conforms with the eligibility criteria contained in the energy communities definitions.

It is important to note that if a closed distribution system is organised as a legal entity that qualifies as a CEC, it would be called a community network for the purposes of Article 16 (CECs) of the Electricity Directive.

Community vs non-community local energy systems

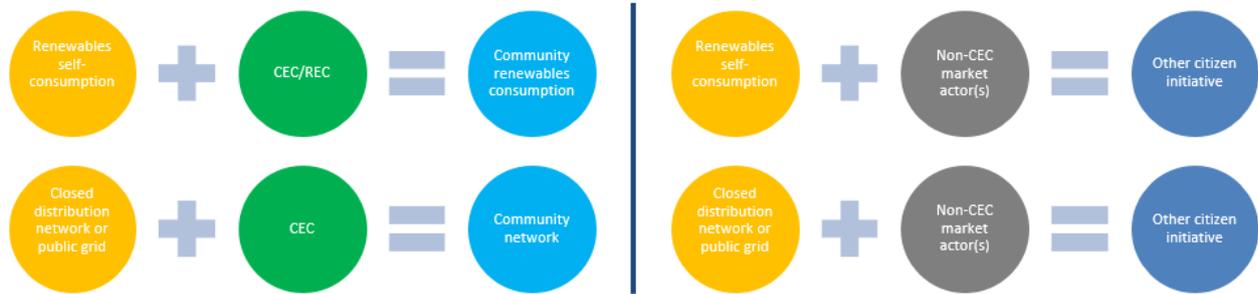


Figure 4: Community vs non-community local energy systems