

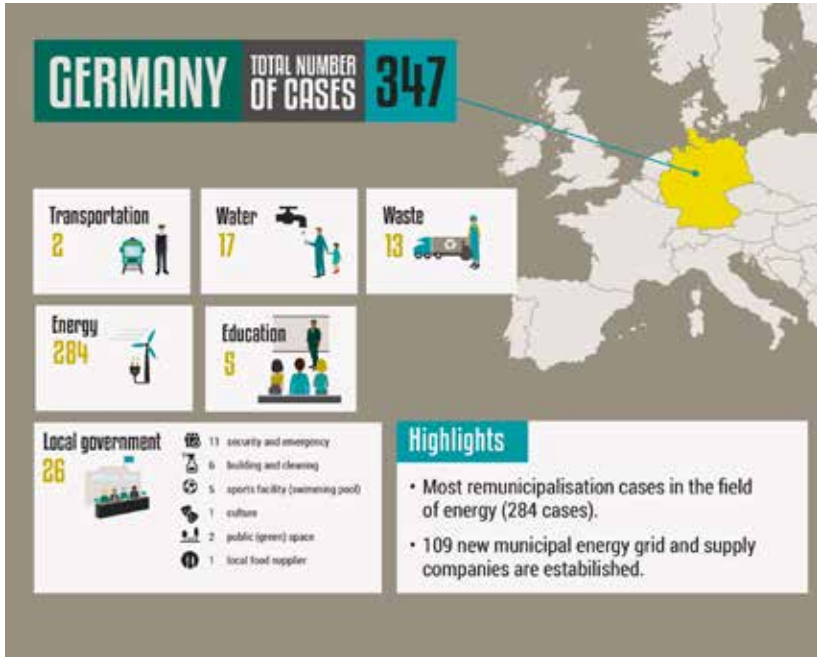
Chapter 8

Our City, Our Grid: The energy remunicipalisation trend in Germany

By Sören Becker

Reversing privatisation, establishing local ownership

Does it make a difference who owns and controls energy infrastructure? In many German municipalities, the answer to that question has been a clear “Yes,” resulting in a trend that has been referred to as “a wave of remunicipalisations” across the energy sector. Among the different remunicipalisation trends covered in this book, the greatest number of cases comes from the German energy sector. The country accounts for 347 cases since the year 2005, with the energy sector clearly making up the biggest part with 284 remunicipalisations overall. Not only does the sheer quantity of cases stand out compared to the other remunicipalisation sectors studied in this book, remunicipalised energy utilities also make up a large share of the estimated 900 local public enterprises in Germany.¹ Spreading across the country, from small municipalities (from 1,400 inhabitants) to metropolises like Hamburg, and including intermunicipal cooperation cases, the remunicipalisation trend is shifting the balance of power between the private and the public energy sector. Some even speak of “a renaissance of the municipal economy”² implying that these cases of remunicipalisation are significant beyond the energy sector.



This chapter gives an account of remunicipalisations in the German energy sector, and is divided into two main parts. The first section discusses the different factors enabling remunicipalisation. The second section turns to the politics and strategies behind two remunicipalisation cases in Hamburg, contrasting a more consensual and top-down variant of remunicipalisation with one that involved more conflictual public mobilisation and direct democracy.

Why energy? Why Germany?

The remunicipalisation trend in the German energy sector has taken two main forms: turning back previous privatisations and forming new local utilities where a regional supplier (often private) was active before. The energy remunicipalisations hit a sector that experienced widespread privatisation after the liberalisation of the energy market. And indeed, in the

late 1990s and early 2000s, many cities and municipalities sold shares or entire utilities to private bidders, resulting in a remarkable concentration process.³ The so-called “Big Four” were rising: integrated energy corporations (of which some are still partly or even fully state-owned as in the case of Vattenfall) that seemingly divided the country into interest spheres, each controlling a large part of the energy infrastructure in a given region. However, just after the new structures of the energy sector had crystallised, cracks started to show again. Although the widespread occurrence of remunicipalisations might come as a surprise to some, there were a number of factors that enabled these remunicipalisations.

Traditions of local utilities: There is a strong tradition of local utilities providing services in Germany, not only in energy but also in other sectors such as water or transport.⁴ Although there have been a number of shifts reflecting the changing dominant political economic models over time – from private build-up, to a stronger role for the state after World War II, to market-oriented reforms and privatisation from the 1980s on – municipalities continued to play an important role in service provision (sometimes also in public-private partnerships).⁵ Hence, local utilities have a strong tradition in Germany; often they integrated different sectors into one organisation, the so-called “*Stadtwerk*” (city utility). Even after privatisation, the notion of a *Stadtwerk* remained important as a political option to many.

The energy transition as a discursive and material opening: Originally advocated by a few precursors, the German energy transition (*Energiewende*) gained considerable momentum with the reform projects of the Red-Green coalition government that came to power in 1998.⁶ Notably, the introduction of the feed-in tariff system through the Renewable Energy Act (EEG) two years later resulted in the massive build-up of citizen or farmer-owned wind, solar and biomass facilities.⁷ Connected to the promise to phase out nuclear energy completely, the transition to renewable energies turned into one of the major policy discourses of the new millennium. This implied a double opening: first, in the way that new

actors entered the energy sector and questioned the private-is-best orthodoxy prominent in privatisation and liberalisation processes; and second, it diversified the catalogue of energy policy toward the new aims of sustainability and climate-friendliness. In other words, the *Energiewende* underlines that energy provision has become more than a technological and economic issue.

Disappointment with the performance of private operators: For a long time the “Big Four” energy corporations failed to address these demands for renewable energy.⁸ While renewable energy development to a large part happened through decentralised and small-scale projects, renewables did not play a major role in the bigger companies’ business strategies, and they were often criticised for slowing down the adjustment of energy grids to decentralised generation. Additionally, municipalities felt they had lost control over their energy provision, both in the sense of having a general influence over issues such as service quality and over available tools for the energy transition. Likewise, in very few cases did private operators prove to be more efficient than previous municipal ones; instead, prices often rose.⁹ For the municipalities, in turn, relatively stable revenues from selling energy and running the grid were lacking, which foreclosed the possibility for cross-financing more costly services such as public swimming pools as in the past.

Phasing out of concession contracts as a window of opportunity: A more occasional factor that enabled the remunicipalisation trend in Germany was the expiration of numerous concession contracts. These contracts set the conditions for using streets and other public space for cabling and pipelines – the very foundation for running an energy grid locally. These concession contracts were normally signed for 20 years, and most had to be renewed in the first decade of the 2000s. While the vast majority of contracts were renewed or only partly renegotiated and then renewed, in those municipalities where remunicipalisation occurred, the expiration of the concession put the topic of local energy futures on the agenda. This provided an opportunity for changing established relations. And indeed,

much more than two-thirds of all of the remunicipalisation cases accounted for in this book occurred in relation to the expiry of a concession contract.

Low interest rates on communal credits: A further enabling factor was the availability of cheap money for municipal investments. The European Central Bank's low interest policies also affected the market for communal credits, on which the interest rates are generally lower than private credit.

In this sense, the remunicipalisation trend in the German energy sector rests on a convergence of local service traditions with the dynamics of the *Energiewende* combined with ending concessions and available credits, all providing favourable conditions. But ultimately, whether these opportunities were actually seized and led to remunicipalisations was the result of local political processes.

The politics behind remunicipalisations

Remunicipalisations require the political will of local decision-makers. Therefore they are the result of local politics, which in turn is defined by local constellations of actors, local traditions in service provision, the financial situation of the municipality, etc. The political stance of local decision-makers on the issue of public ownership defines how conflictual remunicipalisation processes are. Thereby party affiliation on a left wing–right wing spectrum does not strongly predict whether a city council favours remunicipalisation; in fact members of the Social-Democratic Party opposed remunicipalisation on many occasions. Some processes especially in smaller towns were rather consensual, or at least backed by a strong majority in the city council. However, often times remunicipalisation involved deep and long-lasting conflicts, among different factions within local politics and the administration, or even among established local elites and social movement actors.

To date, there exists no comprehensive study of the political processes behind all of the remunicipalisations in the German energy sector, therefore I will look at remunicipalisations in Hamburg to delve into the politics behind remunicipalisation. Around the year 2000, the city sold its shares to outside investors both in the electricity and district-heating company and in the gas utility. Even though the city's population is much bigger than in most of the other remunicipalisation cases mentioned in this book, it is very suitable for this analysis as you can observe both forms of remunicipalisation: one rather quiet and one outspokenly conflictual.

First, in 2009 a Conservative-Green government decreed the establishment of a utility called *Hamburg Energie* founded to build up renewable energy generation facilities and to sell the electricity produced. *Hamburg Energie* came out of a political decision within local government circles; mainly the Green Party used its power in government in the face of the irreversible approval of a 1.7-GW, coal-fired power plant they were campaigning against. The utility was founded as an autonomous subsidiary of the local waterworks that were still fully publicly owned. Importantly, *Hamburg Energie* was given a clear mission statement including commitments to the "provision of energy for the general public and public institutions," the sale of "climate-friendly electricity (non-nuclear and coal-free)" and a requirement that the enterprise "plan, erect and run municipal infrastructures."¹⁰ Once established, this utility proved very effective for increasing the share of renewable energies. More than 13 MW in wind power were installed by the end 2015, and a 10-MW solar energy programme including citizens and local business as co-investors was completed. Furthermore, the utility attracted more than 100,000 clients who opted for renewable and locally produced energy.¹¹ So *Hamburg Energie* stands as a case of top-down remunicipalisation that has proven to be a very successful instrument for promoting a transition to renewable energy.

In comparison, the question of the future of the energy grids invoked a very conflictual and antagonistic process lasting from 2011 to 2013. As it became clear that the Social-Democratic government was not willing to put remunicipalisation on the agenda as the concessions were running out, a broad popular coalition formed to push the government in that direction. This coalition included social and environmental movements and NGOs such as Friends of the Earth (BUND), parts of the Lutheran Church and the Customer Advice Centre, and many smaller groups. They chose to organise a referendum as a strategy to legally bind the government to remunicipalise the energy grids (electricity, district heating, gas) and to form a utility that would concur with social, ecological and democratic demands. Similar processes happened in Berlin (see Box 1) and in the smaller city of Augsburg. Finally the Hamburg referendum was successful in September 2013, with a narrow majority of 50.9 per cent.

Box 1

The concept of “Citizen Utility” (*Bürgerstadtwerk*) in Berlin

As with the events in Hamburg, Berlin also organised a referendum on energy network remunicipalisation. However, there are a few differences. First, the coalition for remunicipalisation in the capital was composed by more grassroots organisations than in Hamburg where larger social and environmental NGOs took the lead. The Berlin campaign was organised as a grassroots democratic process based on consensus, while the Hamburg campaign relied on the professionalised structures of Friends of the Earth and others. Second, the referendum only targeted the electricity grid. Third the referendum – also taking place in late 2013 – narrowly failed to achieve the required turnout of 25 per cent of the electorate in favour of the proposition.

What makes the initiative in Berlin interesting, despite its failure, is the clear definition of different participatory instruments written into the referendum decree, resembling what could have been the Constitution of a democratic utility.¹² These encompass:

- *Democratic Advisory Board* discussing the main strategic direction of the utility to be formed. It would have encompassed the Senator for Economy, the Senator for Environment, seven employee representatives, and six members elected by the public.
- *Right to Initiative* ruling that any initiative gathering at least 3,000 signatures will be considered by the Advisory Board.
- *Public Assemblies* to discuss issues of energy provision and generation. These should be held once a year for the entire city and for each of the 13 boroughs. Recommendations of these assemblies are to be discussed by the Advisory Board within three months.
- *Ombudsperson* appointed by the utility as the core contact point for citizen and customer queries.

The case of Hamburg illustrates the strategies applied by social movements and the kind of public discourse sparked. While normally attempts to convince local politicians would have mostly included lobbying efforts, the referendum preparations implied a dynamic of coalition building, public mobilisation and antagonism to achieve a necessary degree of attention. When it came to the referendum itself, as a campaign organiser said in an interview, the strategy was to “convince 50 per cent + x,” involving questions on how “to strike the right tone” to appeal to a majority of voters.¹³ However, the quest for remunicipalisation provoked resistance from established actors in local energy politics. First, the city government – then Social-Democrat – settled on a partial remunicipal-

isation of 25.1 per cent and a so-called energy concept with each of the utilities in late 2011. The motivation here was to counter the argument that the local state had no influence over energy provision. In the months leading up to the referendum, public debate became increasingly heated as a counter-campaign against full remunicipalisation was launched. This was backed by a coalition consisting of the main political parties, business associations and even the sector's major trade unions (see Box 2). Interestingly, social and democratic aims only played a minor role in debates as the discourse revolved around two main issues: the financial aspect and the question of whether grid ownership is a feasible instrument for fostering a transition to renewable energy. This approach is well encapsulated in the slogan "because it is worth it" by remunicipalisation supporters.



Hamburg referendum in September 2013
Photo by Unser Hamburg – Unser Netz

Box II

Trade unions and remunicipalisation

While most German trade unions generally support public ownership and are active in remunicipalisations in other sectors, in a number of cases in energy remunicipalisation they took a more sceptical stance on or even opposed remunicipalisations. This can be explained by their primary role of representing the interests of employees in the German system of industrial relations. In this regard, collective agreements for the energy sector often ensure higher wages and benefits for employees, while public service agreements might decrease these conditions for employees. Further, at the time trade union representatives found themselves in a situation where they had just finished a number of negotiations due to internal restructurings after privatisation when calls for remunicipalisation arose. Potential human resource rationalisations with other public service sectors or a downgrading of wages were seen as major risks.¹⁴ It is important to consider these issues if the aim is to bring trade unions on board as partners in a possible coalition for remunicipalisation in the future.

The success of the referendum in Hamburg signified the start of a new phase of remunicipalisation politics, rather than the end of the process. In short, the government who had previously opposed remunicipalisation outright suddenly found itself in charge of implementing the reform. Despite this paradox, the local government worked on implementing the remunicipalisation, negotiating contracts and options with the incumbent concessionaires. By the end of 2014, the electricity grid was repurchased for €495.5 million (including the 2011 purchase of 25.1 per cent), and an option for acquiring the gas distribution network for roughly €355.4 million by 2018 (which will likely become effective during 2017).¹⁵ The main initiators behind the referendum were included as consultants to

the meetings of the Parliamentary Committee on environmental issues. Further, a “Network Advisory Council” was set up in 2016 where these groups are represented, too. The referendum result now plays an important role as a point of reference in the ongoing discussions about the future of the urban district heating system, although it is not yet clear how the social orientation also demanded in the draft should be actualised. Clearly, the referendum in Hamburg has increased the influence of those actors behind the coalition. Beyond that, remunicipalisation seems to have resulted in changes that were bigger than the issue of energy provision itself.

Conclusion

The high number of remunicipalisations in the German energy sector reveals a major shift in its political economic structures. These remunicipalisations either reversed previous privatisations or established new local utilities. This trend was influenced by different traditions, the opening up of the German energy sector through the energy transition, and the expiration of concession contracts as a window of opportunity.

Public ownership in energy utilities widens the toolbox for municipalities to control and benefit financially from infrastructure, but also to potentially shift the overarching goals and policies directing energy provision. This means that municipal energy utilities could serve as a vehicle for different instruments and programmes to increase the share of renewable energies, among these the build-up of renewable energy generation capacities, co-production programmes that involve citizens as investors, and research programmes on the integration of renewable energy. Lastly, good financial conditions render remunicipalisation a feasible option for affluent municipalities.

In other cases, it was social or environmental actors outside the institutions of local politics that sought to push governments in the direction of remunicipalisation. Processes like the one around the energy network referendum in Hamburg led to conflictual and antagonistic processes, but also made it possible to increase the leverage of social movements in local energy politics. Here a clear definition of channels, rights and duties of participation, but also a clear description of the aims of the future utility are important. While there might be tension between participation and effectiveness in the operation of the utility, a balanced presentation of customer, employee and owner interests in the decision-making and control bodies could ensure that municipal utilities deviate from “business as usual” and follow both social and ecological aims while keeping service quality high.



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Endnotes

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- 15 According to the remunicipalisation contracts between the city and the utilities which are available at: <http://www.hamburg.de/pressemitteilungen/4413746/2014-12-01-volkssentscheid-energienetze/> Note that these numbers include both the 2011 partial remunicipalisation and the price negotiated for full remunicipalisation.