



# Energy communities for a just energy transition

## Policy recommendations for Croatia

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## Energy Communities for a Just Transition

Today's accelerating transitions and recurring crises significantly affect Croatian households' well-being and socio-economic resilience. Amidst these challenges, the call for sustainable solutions that respect planetary boundaries and ensure meaningful participation of citizens grows louder.

Through collective empowerment, governance, and ownership of renewable energy services, energy communities strive to build stronger, more resilient, and sustainable communities. These initiatives underscore the importance of collective efforts in mobilising people for climate action, social justice through combating energy poverty, and promoting energy efficiency and savings. Furthermore, energy communities contribute to territorial development through local investments and job creation, enhancing energy security through sobriety and renewable energy provision.

The European Horizon 2020 project CEES ('Community Energy for Energy Solidarity') investigated, evaluated, and explored such community-led energy initiatives, and, more specifically, the social impact that they could generate through actions of solidarity with households in vulnerable situations. The project has identified opportunities and barriers to strengthen energy communities' potential as vehicles for a just transition. **The upcoming European elections and updates of the National Energy and Climate Plans are an important opportunity to harness the transformative potential of citizen- and community-led energy initiatives and to integrate concrete targets into national strategies to reach a just, clean energy transition, with and for all.**

## Summary of CEES recommendations for Croatia

**1/ We recommend that national authorities embed explicit aims to alleviate energy poverty and strengthen justice in the definitions of CECs and RECs to ensure that all citizens can access energy communities and reap its benefits.** In that regard, Croatia should enrich its final NECP update with detailed policies that not only aim to support the quantitative growth of energy communities but also leverage and recognise them in that social role.

**2/ Assess and address the gaps in data regarding energy poverty and the distributional effects of climate and energy policies.** Provisions on energy poverty alleviation have become more numerous in the recently revised EU climate and energy policy under Fit for 55 and REPowerEU. With a clear monitoring and measuring process of the distributional impacts of climate and energy policies effective transposition of new directives is possible.

**3/ Utilise (EU) public funds to foster inclusivity of energy communities, particularly regarding vulnerable households, and their contribution to an equitable energy transition.**

**4/ Develop a Social Climate Plan based on structural and empowering measures.** Vulnerable households and energy communities should be actively involved in multi-stakeholder dialogues and consultations in the framework of the design, implementation and monitoring of the Social Climate Plans from the very beginning.

**5/ Enhance citizen engagement and participatory processes in formulating objectives and policies for the energy transition.** Decisive, large-scale actions from policymakers are required to address social injustices structurally.



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## Current state of affairs at the national level

As a response to the ongoing fossil fuel crisis, the Croatian government implemented a series of subsidies, tax relief, and one-time financial assistance measures to alleviate the biggest blow to households and businesses. These measures are in line with Croatia's pre-crisis strategy, addressing issues of energy poverty and vulnerability through financial support schemes ranging from allowances to cover electricity, gas heating, and general housing costs for vulnerable consumers to subsidy schemes for energy efficiency interventions and renovations.<sup>1</sup>

### Energy poverty in Croatian law

Although the term is used in several legislative and strategic documents, Croatia lacks a clear national definition as well as general awareness and understanding of energy poverty. There is no national plan or strategy to alleviate and/or combat energy poverty. According to the law, energy vulnerability is defined through financial criteria, meaning that people or households are considered vulnerable energy customers when they receive social welfare and/or disability support.<sup>2</sup> Because of this narrow understanding and lack of clarity, it remains difficult to identify the scope of the issue and its specific characteristics in the country.

Nevertheless, energy poverty has been recognised as a growing problem in recent years, leading to a number of regional and local policy efforts aimed at building a better basis for defining, identifying, and tackling the issue. For example, in 2021, the *Draft Program to fight Energy Poverty, which includes the use of renewable energy sources in residential buildings in subsidised areas and areas of special state concern for the period until 2025* was published. And, in its National Energy and Climate Plan, Croatia tables the commitment to develop a 'Program for elimination of energy poverty' (2024). This program aims to define energy poverty, assess its scope and propose measures. Currently, all three elements remain underdeveloped.

### REC and CEC definitions

Both RECs and CECs were introduced in Croatian law in 2021 through the Electricity Market Act and Renewable Energy Sources and High-Efficiency Cogeneration Act respectively. In both, provisions on energy communities were to a large extent a copy-paste of EU REC and CEC definitions, however with important limitations on geographical scope, eligible legal forms under which to set up an energy community and legal unclarity with regards to the relationship between the REC and CEC definitions.

Importantly, in line with RED II, the Croatian framework aims to ensure that participation is a possibility for vulnerable and low-income households in RECs. However, because the RED II refrains

<sup>1</sup> European Commission, Directorate-General for Energy (2020). Member State Reports on Energy Poverty 2019.

<sup>2</sup> ENGAGER (2021). Energy Poverty in Croatia: <https://www.eppedia.eu/article/energy-poverty-croatia>



from providing concrete details on how to achieve inclusive participation and empowerment, further elaboration is needed at the Member State level. At the moment, Croatia does not provide any further specification on how this could be achieved in the national context.

In practice, neither definition has enhanced the environment for citizens and communities to set up an energy community. Recent amendments (July 2023) in the [Electricity Market Act](#) and [Renewable Energy Sources and High-Efficiency Cogeneration Act](#), however, brought some positive changes. The removal of geographical limits for CECs and the barrier of single low voltage station connections are positive changes in the Electricity Market Act, facilitating larger, more inclusive projects. However, the total power limit for production installations remains restrictive. Changes in the RES Act are less positive, limiting REC projects to 500kW and creating conceptual unclarity around energy communities by mistakenly defining RECs as an activity instead of an organisational concept.

## Enabling frameworks

Although a number of energy cooperatives were established over the past years, only one official energy community (association) was established in the four years since the concept was introduced in Croatia's regulatory framework, which is complex and ambiguous for citizens to understand.<sup>3</sup> Energy communities encounter burdensome administration and licensing processes, inflexibility when it comes to business models and operational structures (ex. The requirement for a full-time employee in each energy community) and a lack of access to financial resources and other supportive measures, hindering the development and management of energy communities and jeopardising their social and democratic aims. This shows the need for further clarification of the conceptual and regulatory framework for RECs and CECs and the creation of dedicated support schemes.

[Croatia's Draft NECP update](#) contains ambitions to put in place a specific regulatory framework and incentives to promote the development of energy communities, including through capacity building measures, co-financing of RES technologies and the development of models to encourage the participation of energy communities in tenders. These initiatives will also extend to small and micro enterprises, which typically face significant challenges in competing in this sector. The effectiveness of these measures will be monitored by using the number of energy communities being established as an indicator (as well as RES capacity owned by such initiatives). However, the emphasis on quantitative targets and objectives when it comes to the development of energy communities disregards the qualitative (social, economic and ecological) benefits energy communities can generate for communities and the energy transition. Additionally, the draft NECP does mention "smart cities & communities" in relation to energy poverty reduction but lacks explicit reference to energy communities.

<sup>3</sup> <https://balkangreenenergynews.com/two-years-on-croatia-still-has-no-energy-communities>



## How this affects project results

This context of uncertainty and unclarity does not create fertile ground for exploration of alternative, citizen- and community-led measures to structurally tackle energy poverty. The Croatian community energy partner in the CEES project, ZEZ, highlights that this has caused challenges for them with regards to setting up an energy community, managing its operations once it's running, and acting on energy poverty.

The narrow definition and understanding of energy poverty and vulnerability, as well as data privacy rules, make it challenging for organisations on the ground to identify people in vulnerable situations. Although ZEZ makes use of the existing frameworks and their extensive network of stakeholder organisations and community contact points to identify their target audience, they warn that further guidelines, details, and clarity are needed to truly understand the scope of the issues and reach all those in need of assistance.

## Policy recommendations

June of 2024 could present a make or break for a timely and just climate and energy transition. Between the sixth and the ninth of June, European Member States will organise elections for the European Parliament. An important moment that will dictate the pace and direction of future climate and energy ambitions and the degree to which energy communities will be able to keep bringing across their concerns at the EU institutions. Additionally, by June 30th, 2024, Member States must share a final NECP update with the European Commission. As these plans indicate Member States' timeframes and policies, definitions, and measures they aim to implement to tackle energy and climate issues, NECP updates should carry forward the legislative and policy frameworks adopted under both Fit for 55 and REPowerEU. They present an ideal opportunity to step up ambitions and strategically integrate increased targets and objectives.

In this context, we present several policy recommendations to reap the benefits of community energy as a vehicle for a just energy transition:

1. **Correctly and completely transpose regulatory and legislative provisions on energy communities into national legislation, with justice objectives enshrined as a key principle**

To enable the development of energy communities, and enable them to exercise their rights established under the RED II and IMED, national authorities should correctly and completely transpose provisions on CECs and RECs. This includes providing a clear and uniform definition for energy communities, putting in place simple and transparent registration processes, as well as monitoring and removing unjustified barriers to their development.



In addition, we recommend national authorities to embed explicit aims to energy poverty alleviation and energy justice in the definitions of CECs and RECs in order to ensure that all citizens, regardless of their income, social status, cultural or gender background, can access energy communities and reap its benefits.

In that regard, **Croatia should enrich its final NECP update with detailed policies that not only aim to support the quantitative growth of energy communities but also leverage and recognise them in their role to combat energy poverty, increase social acceptance of the energy transition and enhance citizen participation and empowerment in climate and energy decision making.** Such objectives should be clearly formulated and provide a basis for developing supportive policies that strengthen energy communities' inclusiveness and social impact, while safeguarding the long-term viability of their business models and social and democratic aims.

## 2. Assess and address the gaps in data regarding energy poverty and the distributional effects of climate and energy policies

Croatia's submitted draft NECP update (submitted on 4 July 2023) lacks an assessment of households in energy poverty, a comprehensive analysis of the distributional impacts of the climate and energy transition and, apart from a plan to develop a 'Program for elimination of energy poverty', does not elaborate on concrete policies and measures to address these issues. The lack of data and research on the needs and situation of those experiencing energy vulnerability and poverty jeopardises the effectiveness of any policy aiming to address these issues.

As provisions on energy poverty alleviation have become more numerous in the recently revised EU climate and energy policy under Fit for 55 and REPowerEU, **there is an urgent need for a national definition of energy poverty and vulnerability that encompasses the issues' multidimensionality. A clear monitoring process of the distributional impacts of climate and energy policies should be put in place.** Without this, a meaningful and impactful transposition of these new provisions is impossible.

## 3. Utilise (EU) public funds to foster inclusivity of energy communities, particularly in regard to vulnerable households, and their contribution to an equitable energy transition

Energy communities face several issues concerning access to financial support. Specifically with regards to serving the needs of people in energy vulnerability, CEES Partners consistently found that this can take a lot of time – and is thus resource-intensive.

While the long-term benefits for society more than balance out the short-term costs, if being socially engaged makes energy communities fail, the opportunity to have them play a key role in ensuring a just energy transition will be lost. Their challenge is thus to not only craft a business model that is financially viable but also capable of supporting and scaling their solidarity initiatives. This delicate



balancing act involves ensuring that their operations remain financially sustainable while investing in projects that directly benefit society, such as providing affordable energy access to households in vulnerable situations or investing in local energy resilience projects. To help energy communities perform this role, financial support mechanisms should be set at different levels. **We recommend making a clear taxonomy that differentiates between those energy market players that advance energy justice and those that don't.** For example, social impact could be made an obligatory indicator to access low-interest or zero-loan financial support to invest in renewable energy sources.

**In particular, Member States can leverage European funds to support the development of RECs and their social impact.** As indicated in the financing tracker developed by REScoop.eu, CEE Bankwatch Network and the Climate Action Network, there is much room for improvement for Croatia to better leverage major funds such as the Recovery and Resilience Fund and Cohesion and Regional Development Funds to promote energy communities and their social impact.<sup>4</sup> For example, the Commission's guidelines regarding the REPowerEU chapter of the Recovery and Resilience Plans specifically highlight energy communities as vehicles to tackle energy poverty. Some inspiring practices can be observed across Europe. For example, Greece's recent funding call for energy communities under the RRF in Just Transition areas focused on collective self-consumption projects to combat energy poverty. A similar approach is used in Lithuania and Latvia, where funding calls are tied with broader strategies to tackle energy poverty.<sup>5</sup>

Above all, the currently foreseen expansion of fossil fuel infrastructure in the draft NECP update are in direct competition with structural just transition measures such as housing renovations, public transport and energy communities and should thus be minimised.<sup>6</sup>

#### 4. Develop a Social Climate Plan based on structural and empowering measures

One of the key components of the Fit for 55 legislative package is the extension of the European Emissions Trading System to buildings and road transport (ETS 2). ETS 2 is meant to create an economic incentive to reduce fossil fuel consumption and, thus, greenhouse gas (GHG) emissions. Recognizing the socioeconomic challenges this may bring, especially on those households and businesses already struggling to pay energy bills and participate in the energy transition, the EU established the Social Climate Fund (SCF). The Fund is designed to mitigate adverse impact on vulnerable communities, small businesses, and transport users. To access the Fund, Member States must submit to the Commission a Social Climate Plan (SCP) by 30 June 2025.

<sup>4</sup> REScoop.eu. Financing Tracker: <https://www.rescoop.eu/policy/financing-tracker>

<sup>5</sup> REScoop.eu (2024, January). REPowerEU Briefing:

<https://www.rescoop.eu/toolbox/repowerEU-the-seeds-are-planted-now-the-persistent-gardening-begins>

<sup>6</sup> Community Power Coalition (2024, April). Briefing. Driving the transition: Community Power in National Energy and Climate Plans:

<https://communitypowercoalition.eu/2024/04/17/driving-the-transition-community-power-in-national-energy-and-climate-plans/>





The Regulation highlights the importance of grassroots efforts and local knowledge in driving impactful change and recognises the instrumental role energy communities can play in fulfilling the Fund's goals.

While Croatia's draft NECP update does not elaborate on the preparation of such a Plan, it should be part of the final submission. **We recommend allocating the Fund to participatory and empowering measures** as a priority over measures that keep vulnerable households in a cycle of dependency on support schemes, or overly exposed to commercial, for-profit initiatives. **Vulnerable households and energy communities should be actively involved in multi-stakeholder dialogues and consultations in the framework of the design, implementation and monitoring of the Social Climate Plans from the very beginning.**

#### 5. Enhance citizen engagement and participatory processes in formulating objectives and policies for the energy transition

Facilitating and stimulating the participation of citizens and communities in designing and delivering ambitious climate and energy policies will be key to tackle some of the most pressing issues we are facing today. While it's important to recognise the potential role that energy communities can play in tackling energy poverty and advancing energy justice, it is beyond their reach to solve social justice issues. Decisive, large-scale actions from policymakers are required to address social injustices structurally. **To this end, policymakers should improve participatory processes and equal opportunities for engagement in the energy systems - including in the development of National Energy and Climate Plans (NECPs).**

Unfortunately, the development of Croatia's draft NECP update was not open for public consultation, lacking an official platform for a Multi-level Energy and Climate Dialogue as anticipated in the Governance Regulation, making public consultation challenging, unclear, and ineffective. This process should be bolstered by **establishing dedicated stakeholder dialogues and working groups, with households in vulnerable situations, energy communities and other civil society actors being an integral part of it.**

