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Stephanie Jolly
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Australian Energy Regulator
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Canberra, ACT, 2601

Submitted online: aer inquiry@aer.gov.au.

Dear Ms Jolly

AER's Social licence for electricity transmission projects directions paper

Transgrid welcomes the opportunity to respond to the Australian Energy Regulator's (AER) Social licence for electricity transmission projects directions paper. The directions paper outlines the AER's current approach to social licence issues in the AER's regulatory remit for transmission businesses and seeks feedback on ways to refine the AER's approach.

We strongly believe that real and genuine community and stakeholder consultation and engagement is paramount to a successful transition to net-zero. The generation and transmission investments required to deliver Australia's energy transition will also provide broader community benefits, including regional economic development and employment opportunities. These benefits are also dependent on effective engagement to secure and maintain community and stakeholder support for these major infrastructure projects.

Effective engagement and responding to impacted communities, First Nations and landholders' needs are fundamental to building and maintaining the social licence needed to expand the transmission grid to support the transition to net zero.

Transgrid supports the AER's work to further refine the approach the AER takes on social licence. We believe it is important to have the appropriate regulatory framework in place to engage with the community.

We support the key aspects outlined in the AER's paper including:

- Expectation that transmission network service providers (TNSP) will undertake best practice engagement, in accordance with broadly accepted guidance in the sector that is fit-for-purpose.
- Allowing for flexibility and not intended to be prescriptive on types of costs that could be related to social licence.
- Providing engagement and activity plans. That is, there is a clear, consistent and transparent process and documentation, tailored to stakeholder needs and expectations.

Engagement plans that are tailored to stakeholder needs and expectations

Transgrid supports the proposal that TNSPs provide a project engagement plan and the option of an activity plan, or equivalent. Engagement plans inform best practice engagement and community investment initiatives that will be implemented as part of the project.

We believe that engagement plans need to be dynamic as they would need to evolve and change as the project moves through the project lifecycle.

The development of any social licence plan or framework will be informed from engagement with the communities and stakeholders that are impacted by the project and supported by investment into social impacts that have been identified through assessment and engagement.

We believe the engagement plan will include:

- the objectives of the social licence activities,
- how the selected social licence activities were selected through and/or informed by the results of early and extensive engagement,
- the link to a particular transmission project,
- how the proposed activities support or are consistent with the NEM objectives and,
- details of the network's consumers engaged and consulted.

We recommend that these plans be sufficiently flexible to include impact mitigation activities (specifically the social and economic impact activities) and the project "good will" activities such as community sponsorships to the "engagement response" model proposed by the AER. An engagement plan should entail a comprehensive approach to respond to the community and stakeholders needs and address adverse socioeconomic impacts introduced through the project. Essentially, these plans should be the foundation of the social licence engagement, activities, and associated cost recovery.

Social licence cannot be entirely reduced to individual measures and quantitative metrics

We are concerned about two of the proposed recommendations outlined in the AER's directions paper and encourage the AER to consider the final policy position in more detail. These are:

1. **Process for engagement in the expenditure proposal – in particular, adopting a quantitative analysis.** The AER has proposed that whenever a transmission business seeks to recover expenditure associated with social licence engagement they must submit an engagement plan. In addition to the engagement plan, the AER proposes a transmission business develops a social licence activity plan to justify its social licence expenditure. The AER has also stated that social licence expenditure can be demonstrated by competitive procurement, benchmarking or another relevant process.

Social licence is a broad term that cannot be easily measured. Applying only a quantitative analysis or a benchmark to justify expenditure in these plans does not accurately reflect the nature of social licence and its distinct features from other project expenditure types. Furthermore, social licence expenditure is project specific and therefore would be difficult to benchmark to other projects, as every community and stakeholders has different needs. Therefore, engagement and other social licence activities need to be tailored to the specific project context and it is important that qualitative evidence, analysis and techniques are able to be accommodated in their justification.

RECOMMENDATION: Transgrid encourages the AER to accommodate both quantitative and qualitative justification and benefits in its guidelines and when assessing social licence expenditure proposals.

2. **Application of ‘but for’ test for the assessment of social licence activities and associated costs**
– Transgrid is of the view that the application of the “but for” test for each social licence activity is overly onerous, reductive and for some activities unrealistic. Social licence is the product of multiple different actions and activities that have different drivers. The impact of these activities needs to be considered holistically rather than on individual terms. Applying such a narrow and prescriptive test to each activity would be extremely challenging, resource intensive and unlikely to provide meaningful judgement or outcomes. In Transgrid’s view, our social licence framework (which has been provided to the AER previously) ensures prudence and efficiency tests can be satisfactorily undertaken for all social licence activities.

RECOMMENDATION: Transgrid encourages the AER to consider the unique nature of social licence expenditure and cautions the use of a binary ‘but for’ test to evaluate social licence expenditure. We would also encourage the AER to look at social licence expenditure from a holistic, quantitative and qualitative, perspective.

Finally, we note that social licence expenditure proposals have been developed or are currently under development for HumeLink and VNI West and will be submitted to the AER as part of upcoming contingent project applications. Transgrid believes that the approach and policy positions proposed in the directions paper should not be applied by the AER to the assessment of these applications before the policy positions are finalised and ultimately formalised through guidelines.

We look forward to working with the AER to develop guidelines that are fit for purpose, support timely project delivery and tailored to the unique nature of social licence expenditure.

If you or your staff require any further information or clarification on this submission, please contact Zainab Dirani at zainab.dirani@transgrid.com.au.

Yours faithfully



Maryanne Graham

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