

## Incentivising Best Practice Renewable Energy Development:

### *National merit criteria to unlock social licence*

#### **Why we need National Merit Criteria**

Rapid deployment of renewable energy generation and transmission infrastructure is a fundamental part of a safe climate future. To enable the Federal Government to reach its 82% renewable energy target by 2030, **Australia needs renewables and transmission to be done well and supported by host communities.**

Delivering **social value** involves creating experiences of positive change in people's lives and in communities. Communities are more likely to support change, like hosting large scale transmission and renewable energy generation and storage projects, when they experience:

- Procedural fairness through quality community engagement and participation,
- Distributional fairness via First Nations outcomes, good benefit sharing, local jobs, contracts and training,
- Environmental protections in ecosystems important to their community.

The federal government needs a tangible way to stand up and show commitment to protecting the community's rights in renewable energy development in order to build confidence and social licence for the large-scale energy shift - all while incentivising a clear path to industry investment in renewables.

#### **Benefits of National Merit Criteria**

Demonstrating national leadership on the importance of delivering social value from the energy shift will assist the national narrative, whilst strengthening the potential for state jurisdictions to do the same who have not yet progressed with their Renewable Energy Zone (REZ) roll out. High quality national merit criteria for social performance, administered through the expanded Capacity Investment Scheme (CIS), funding provided through 'Rewiring the Nation' or Offshore Wind Feasibility Licences , would:

- Help to ensure that the vital social aspects of the renewable energy shift are done right
- Unlock the social licence required at the individual project level
- Build support for the shift to renewables as a whole
- Improve industry standards across Australia
- Deliver positive social, economic and environmental outcomes to communities
- Shift the economics for developers committing to better practise on social performance.

In line with the recommendations from AEIC's Community Engagement Review, merit criteria could perform as an incentive based approach to better practice helping to create a 'race to the top' for industry .

The Commonwealth's Capacity Investment Scheme tender for generation in South Australia and Victoria includes merit criteria for both community engagement and benefit sharing. However, these merit criteria are significantly less protective than the VRET2 in Victoria and do not represent leadership for building social licence for the sector. The CIS should not incentivise projects to a lowest common denominator and undermine State based initiatives that are seeking to drive better practice.

### **Suggested merit criteria to improve social licence**

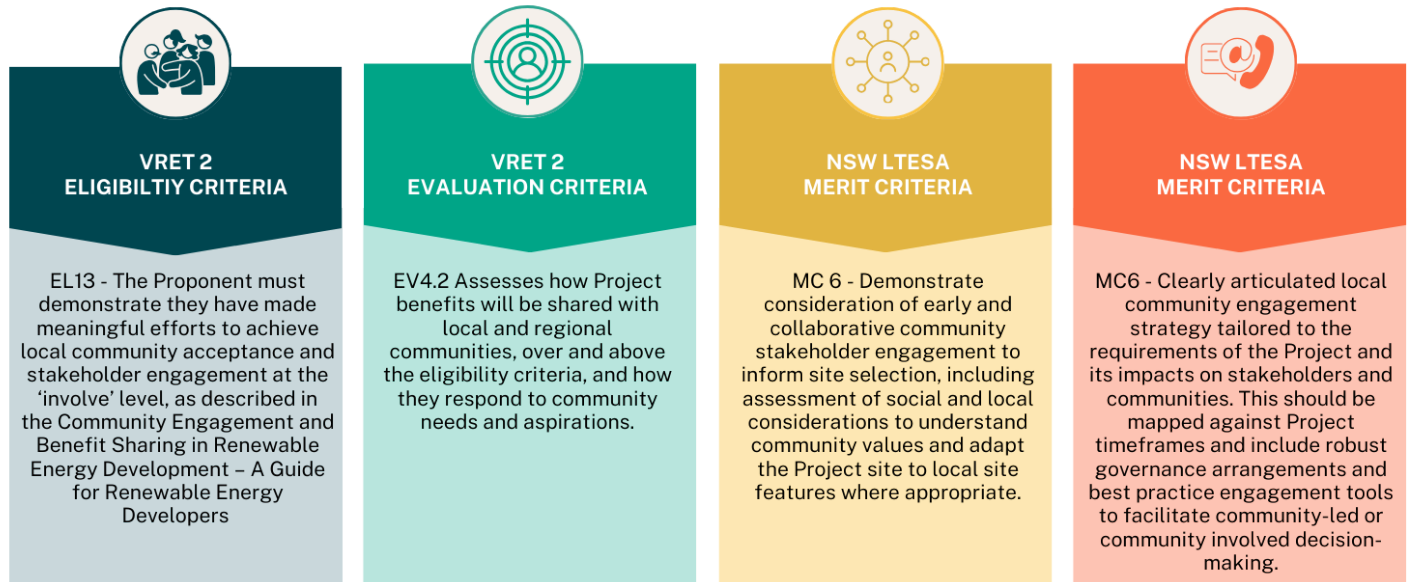
The types of merit criteria that can help to foster stronger social licence are ones that encourage better practice on the topics of greatest concern for host communities. All of these would incentivise better practice by going beyond (rather than duplicating) requirements of state based development assessment requirements. Through our engagement on the ground in multiple REZ communities we have observed that the key areas of concern which most warrant merit criteria for social performance are:

1. First Nations rights and participation
2. Community engagement
3. Benefit sharing
4. Local procurement, workforce readiness and accommodation
5. Environmental and land use planning (other than permitting requirements)
  - a. Community partnerships for environmental protection and enhancement
  - b. Community participation in land use planning and/or co-use of land for agriculture

### **What are merit criteria and where are they being used?**

Merit criteria are a rigorous means of evaluating the practice of renewable energy project development and delivery. They are often used as an assessment tool for tenders and incentive programs. Merit criteria are already being used to assess the social performance of renewable energy projects bidding into competitive renewable energy contract tenders in the ACT, Victoria and the Commonwealth Capacity Investment Scheme. They are also being used to determine access rights and service agreements in the NSW Renewable Energy Zones. The Northern Australia Infrastructure Facility (NAIF), which funds renewable and storage projects alongside other infrastructure, also has mandatory eligibility criteria that hinge on projects delivering social benefit, with a particular focus on First Nations outcomes. In these instances, merit criteria relating to community engagement, benefit sharing and/or local procurement help to analyse the strength of a developer's social performance and favour better practice that can ultimately lead to stronger social licence. For the many projects occurring in areas outside of these regions and schemes, there are no assessment mechanisms that incentivise delivering good social value to host communities.

## Examples of existing merit criteria for social performance



Source: NSW Electricity Infrastructure Tenders Guidelines – Tender Round 4 October 2023 and Second Victorian Renewable Energy Target Auction (VRET2) Request for Proposal

### Example of how merit criteria enabled better social outcomes - ACT Reverse Auction

The ACT was the first jurisdiction in Australia to introduce merit criteria to incentivise good social outcomes from renewable energy projects. Projects supported under the ACT Wind Auction required proponents to demonstrate good local engagement processes and outcomes as part of the assessment process. The EV2 'Local Community Engagement' merit criteria accounted for 20% of overall evaluation and assessed the quality of community engagement and benefit sharing, and the ability to demonstrate community support and / or productive response to community concerns. Projects were expected to demonstrate alignment with the ACT's accompanying "Best Practice" guide, in which projects with more inclusive and collaborative methods (both completed and planned) would score higher.

Two projects successful under the tender and their key points of difference include:

Coonoer Bridge Wind Farm, Windlab, VIC	Sapphire Wind Farm, CWP/ Squadron, NSW
<ul style="list-style-type: none"> <li>● Project hosts &amp; neighbours met with the proponent individually &amp; as a group repeatedly through design phase; feedback influenced project &amp; benefit sharing design.</li> <li>● Neighbours were gifted \$2,000 worth of shares each in the wind farm &amp; receive dividends on these, &amp; can nominate a delegate to the wind farm board.</li> <li>● Focus on regular, ongoing face to face engagement by project manager.</li> </ul>	<ul style="list-style-type: none"> <li>● ACT ambition to reward best practice influenced Sapphire decision to become the first wind farm in Australia to do a public co-investment offer in the local community.</li> <li>● Employed a local engagement staff person &amp; established a local shop front for community interface.</li> </ul>

Industry research revealed the ACT auctions were a significant contributor to driving positive change in the way renewable energy proponents do community engagement and benefit sharing.<sup>1</sup>

#### **How the Federal Government could strengthen and implement National Merit Criteria**

High quality national merit criteria for improving the social performance in the delivery of renewable energy projects could be implemented as an assessment tool through a variety of federal incentive mechanisms. A primary means for consideration would be through strengthening the existing social merit criteria in the tenders for the expanded Capacity Investment Scheme and/or as part of the offshore wind feasibility licencing scheme. For national merit criteria to garner respect and trust from host communities to deliver meaningful social outcomes, they must be developed both rigorously *and* in a way that industry can genuinely respond to. They must also be monitored, evaluated and transparently reported on over time to ensure that the items committed to are actually delivered.

Consideration should be given into:

- Designing criteria that effectively assesses genuine social performance, as well as technical and fiscal performance.
- Ensuring the assessment process is not reduced to a tick box exercise due to it being either too weak or too idealistic.
- How community investment and community energy projects may also be incorporated. Ways to enable everyday Australians to participate directly for a financial return will go a long way to combatting the perception that only big business and international investors are profiting from Australia's energy shift while regional communities are left to host the infrastructure.

<sup>1</sup> Hicks, J., Lane, T., Wood, E. & Hall, N. (2018) Enhancing Positive Social Outcomes From Wind Development, Clean Energy Council

- Designing national merit criteria to work alongside and in harmony with State based assessment schemes.
- Designing national merit criteria to be adaptive to infrastructure type (e.g. generation, transmission or storage) and applicable to the local and state context (e.g. remote Western Australia compared to central Victoria).
- Ensuring that the commitments made and assessed via merit criteria are included in contracts, with clear recourse for not meeting them.

### **How to ensure merit criteria actually deliver**

Merit criteria can be used to assess outcomes already achieved as well as plans for activities and programs that are planned for the future. The effectiveness of merit criteria for social performance will rest in part on the transparency and accountability of a project to deliver what it has committed to in an assessment process. This requires an ongoing process of monitoring and evaluation to be implemented to ensure performance against merit criteria over the lifecycle of projects. As such, merit criteria can enable longer term practice change across industry in ways that deliver tangible social value in communities and actively builds social licence for the energy shift.

### **Recommendations**

1. Strengthen the CIS tender application process to align with leading state criteria for social licence:
  - a. Require a social impact assessment to have been completed (as EV4 in VRET2).
  - b. Require community benefit sharing strategies to be consistent with best practice as outlined in the CEC “Guide to Benefit Sharing Options for Renewable Energy Projects”.
  - c. Require a community engagement plan to be presented outlining a variety of engagement methods used and planned to be used to foster understanding and social licence for the project, and to build relationships and trust in the project and proponent. The plan should indicate the methods used to notify the community and lead times given to attend engagement activities. The plan needs to demonstrate the outcomes of engagement done to date and evidence of responsiveness to community input.
  - d. Applicants should be required to demonstrate an understanding of community sentiment (e.g. via polling, letters of support, surveys, feedback received).
  - e. Require demonstration of how community engagement has occurred to at least the “involve” level as per the IAP2 spectrum of public engagement. (EL13 in VRET2)
  - f. Require social licence strategies that include community participation in design, delivery and governance.
  - g. Require an assessment that community engagement undertaken to date and strategies planned are appropriate to the context and scale of the project.
  
2. Create leading social merit criteria for the approval of offshore wind zone feasibility licences to drive best practice community engagement and participation practices in Australia.

- a. include in DCCEE's Guideline for Offshore Electricity Infrastructure Feasibility Licences:
  - i. Clear requirements for the preparation of social impact assessment and a social feasibility study alongside other feasibility studies undertaken as part of the licence.
  - ii. Require licensees to provide a community engagement plan and strategies as to how the community will be involved in the project development process.
  - iii. In addition, the 'forecast socio-economic benefits of the proposed project' also require documentation of the planned community participation in the design and implementation of benefit sharing programs.
3. Set targets for local content, employment and apprenticeships (or other learning based jobs) in both the CIS and OSW.
4. Incentivise partnerships with tertiary and training sectors to ensure training pathways are established for locals.
5. Explore options to strengthen social merit criteria for other Federal Government incentive schemes such as Rewiring the Nation or National Reconstruction Fund.
6. Showcase how merit criteria is leading to better outcomes for projects and communities around Australia to build the national narrative of a positive shift to renewable energy.

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