

Hunter River Salinity Trading Scheme Credit Auction

2020 Auction Report

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Published by:

NSW Environment Protection Authority
4 Parramatta Square, 12 Darcy Street
Parramatta NSW 2150
Locked Bag 5022, Parramatta NSW 2124
Phone: +61 2 9995 5000 (switchboard)
Phone: 131 555 (NSW only – environment information and publications requests)
Fax: +61 2 9995 5999
TTY users: phone 133 677, then ask for 131 555
Speak and listen users: phone 1300 555 727, then ask for 131 555
Email: info@epa.nsw.gov.au
Website: www.epa.nsw.gov.au

Report pollution and environmental incidents
Environment Line: 131 555 (NSW only) or info@epa.nsw.gov.au
See also www.epa.nsw.gov.au

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Summary

On 22 May 2020 the NSW Environment Protection Authority (EPA) held the ninth auction of 200 credits under the Hunter River Salinity Trading Scheme (HRSTS) using a web-based auction program. The credits have a 10-year life that begins on 1 July 2020 and ends on 30 June 2030. These credits replace the 200 credits that expired on 30 June 2020.

The next auction will be held in 2022.

About the Auction

The 2020 auction was run using a web-based auction program developed by the University of Melbourne Centre for Market Design for the 2014 Auction. The auction program was hosted by First Focus IT Pty Ltd.

The 2020 auction was conducted in accordance with the rules detailed in the [Hunter River Salinity Trading Scheme Credit Auction Information \(PDF 843KB\)](#). Bids were lodged online with the website address and password provided to auction participants on registration.

The auction ran over nine hours from 9 am until 6 pm.

Eleven bidders, representing mining and power generation facilities, registered for the auction with nine participating on the day of the auction. All bidders represented organisations that operate in the Hunter Valley. There were no registrations from non-industry bidders.

Results

All 200 credits were allocated and distributed between six companies. The credit allocations and cost to each bidder are shown in Table 1.

The auction raised \$890,674 (including GST) which is a 67% increase when compared with the income generated in the 2018 auction (\$531,820).

The highest price paid for a credit was \$5,000, the average was \$4,453 and the lowest was \$3,319. The highest losing bid was \$5,000.

Bidders were willing to pay between \$600 and \$16,000 per credit. Two registered bidders did not participate in the auction and three bidders were unsuccessful in obtaining any credits.

The total number of credits sought was 400 but only 200 credits were available.

Table 1 2020 credit auction results

Bidder	Credits allocated	Total costs
MACH Energy Australia Pty Ltd – Mt Pleasant	26	\$123,219
AGL Macquarie Pty Ltd	52	\$222,108
HV Operations Pty Ltd	30	\$143,219
Mount Thorley Operations Pty Ltd	59	\$244,930
Ravensworth Operations Pty Ltd	24	\$112,198
Wambo Coal Pty Ltd	9	\$45,000
Total	200	\$890,674

Auction and bid allocation process

A total of 200 credits are available to auction.

Each registered bidder is able to submit one 'bid schedule' which comprises a number of groups of credits with a specific bid price per credit. For example, a bidder seeking 17 credits could submit a bid schedule consisting of three credits valued at \$13,983 each, seven credits valued at \$13,523 each, three credits valued at \$6,460 and four credits valued at \$2,925. This indicates that the bidder was willing to pay \$167,690 for 17 credits.

At the close of the auction, the auction program ranks each bid from the highest credit value to the lowest credit value. The auction program then determines the 'highest losing bid', which is the starting value actually paid by successful bidders. The value of the 'highest losing bid' can be less than the bid price submitted by the successful bidder. Each bidder is then allocated a proportion of the 200 credits, based on their bid schedule until all 200 credits are allocated.

Revenue and costs

Net revenue from the 2020 auction (\$890,674 including GST) will be used to offset the costs of the HRSTS in the 2020/21 operating year. Any shortfalls in funding the operation of the HRSTS are raised by the EPA directly from invoicing HRSTS participants.

Objectives achieved

The HRSTS auction process was designed to:

- distribute credits to those who value them most
- provide equal access for all bidders, including new entrants to the market
- sell all 200 credits.

To ensure these objectives are met, the auction process:

- operates in a single-bid, web-based auction environment
- was designed to maintain bidder confidentiality
- includes safeguards against anti-competitive behaviour.

Against these objectives the EPA can report that:

- the auction achieved the distribution of 200 credits to the companies who were willing to bid enough to secure credits
- the auction was advertised in local newspapers and on the EPA website
- 200 credits have been allocated to the successful bidders and will become active on 1 July 2020.