

Hunter River Salinity Trading Scheme Credit Auction

2018 auction report

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Summary

On 2 May 2018 the NSW Environment Protection Authority (EPA) held the eighth 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 2018 and ends on 30 June 2028. These credits replace the 200 credits that expire on 30 June 2018.

The next auction will be held in 2020.

About the auction

The 2018 auction was run using a web-based auction program that was 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 2018 auction was conducted in accordance with the rules detailed in the *Hunter River Salinity Trading Scheme Credit: Auction information*. 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.

Ten bidders, representing mining and power generation facilities, registered for the auction, with all 10 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 10 companies. The credit allocations and cost to each bidder are shown in Table 1.

The auction raised \$531,820 (including GST), which is more than three times the income generated by the 2016 auction (\$170,359).

The highest price paid for a credit was \$3,025, the average was \$2,659 and the lowest was \$2,134.

Bidders were willing to pay between \$979 and \$12,100 per credit.

Table 1: 2018 credit auction results

| Bidder | Credits allocated | Total costs |
|---|-------------------|------------------|
| AGL Macquarie Pty Ltd | 39 | \$99,311 |
| HV Operations Pty Ltd | 37 | \$96,325 |
| Mangoola Coal Operations Pty Ltd | 25 | \$64,225 |
| Ravensworth Operations Pty Ltd | 20 | \$53,945 |
| Bengalla Mining Company Pty Ltd | 19 | \$51,385 |
| Mount Thorley Operations Pty Ltd | 15 | \$41,145 |
| Wambo Coal Pty Ltd | 15 | \$41,145 |
| Liddell Coal Operations Pty Ltd | 15 | \$41,145 |
| Bulga Coal Management Pty Ltd | 10 | \$28,105 |
| MACH Energy Australia Pty Ltd – Mt Pleasant | 5 | \$15,089 |
| Total | 200 | \$531,820 |

Auction and bid allocation process

The total number of credits available at auction was 200.

Each registered bidder was able to submit one 'bid schedule', which comprised 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 3 credits valued at \$13,983 each, 7 credits valued at \$13,523 each, 3 credits valued at \$6,460 and 4 credits valued at \$2,925. This would indicate that the bidder was willing to pay \$167,690 for 17 credits.

At the close of the auction, the auction program ranked each bid from the highest credit value to the lowest credit value.

Credit number 201 is known as the 'highest losing bid', meaning that the bid value allocated to this credit is the starting value actually paid by successful bidders. It may have been less than the bid price submitted by the successful bidder. Each bidder was then allocated a proportion of the 200 credits until all 200 credits are allocated.

Revenue and costs

Net revenue from the 2018 auction (\$531,820 including GST) will be used to offset the costs of the HRSTS. Any shortfalls in funding the operation of the HRSTS are raised by the EPA directly from invoicing the 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
- clear all 200 credits.

To ensure these objectives are met, the auction process:

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

Against these objectives the EPA can report that:

- the auction achieved a distribution of 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 2018.

Feedback received

During the auction, one bidder sought confirmation that their bid had been correctly lodged and was directed to the automated confirmation already provided.