

Our Reference MG/KS 201401

POEO (HRSTS) Regulation Review
Reform and Compliance Branch
Environment Protection Authority

HRSTS.Review@epa.nsw.gov.au

**SUBMISSION FOR REVIEW OF THE PROTECTION OF THE ENVIRONMENT OPERATIONS
(HUNTER RIVER SALINITY TRADING SCHEME) REGULATION 2002**

I refer to your Discussion Paper on the above subject letter in which you invite submissions on the review of the Regulation to be submitted to you by 5pm on 7 February 2014.

This letter is Macquarie Generation's submission regarding items for consideration in the remake of the Regulation:

1. It is recommended that the definition of a high flow event be changed so an event can be triggered at a lower flow 1200ML/day for the middle sector, but without impacting the 900uS maximum conductivity limit.
- Macquarie Generation would benefit from more discharge opportunity if it could be made available. It is noted that over the HRSTS reporting periods 2011/12 and 2012/13 the published river registers provided for a maximum salt discharge opportunity for Macquarie Generation of 80,000 tonnes within the rules of the scheme. Against this, Macquarie Generation is limited by physical infrastructure to 670 ML/day based on the already extensive 900mm diameter pipeline through Liddell dam wall. This provides for a maximum available real discharge opportunity of 58,000 tonnes across the period when this limit is considered. In the period Macquarie Generation actually discharged approximately 45,000 tonnes of salt representing 77% of the real opportunity available. Of the remaining opportunity there was a dry period in early 2013 where water levels were falling and holding the water (water security) unavoidably became a higher priority than discharging the salt (water quality). In essence, Macquarie Generation has taken every reasonable advantage of the opportunity to discharge presented by the rules of the scheme.

Powering Our Community

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- Through the same HRSTS reporting periods 2011/12 and 2012/13 there have been many periods where the flow was between 1200 and 1800ML/day (below the minimum limit prescribed by the current Regulation) and the river conductivity was less than 900uS/cm. In the view of Macquarie Generation these periods represent potentially untapped discharge opportunity that could be addressed by change within the Regulation.

2. It is recommended that the credit auction system be replaced by a license based system where discharge rights are owned in perpetuity by scheme participants.

- Once credits are purchased they could be owned in the same manner that a company owns a water license, and only sold once the company wishes to sell. Businesses like Macquarie Generation build infrastructure and purchase land with design allowance for available opportunity to discharge saline water. As such the holding of the credits then becomes an essential requirement for the viability of the business. There is a close relationship between the behaviours, needs and implications for water rights as compared to discharge rights.

Water	Discharge
Essential part of operating most established businesses. Whilst ever these businesses continue to operate they require the water.	Essential part of operating some established businesses. Whilst ever these businesses continue to operate they require the ability to discharge.
Limited water available in the Hunter Valley per the available rainfall as defined in the Hunter Regulated Water Sharing Plan.	Limited discharge opportunity available and right to discharge per available salt capacity in the river as defined in the HRSTS Regulation.

- Ongoing fees should apply as necessary to cover scheme operational costs, which would then be more controllable for the EPA in the management of the scheme, and more predictable for participants in terms of the cost of their part in the scheme. By comparison to the biannual auction process, these fees (plus environment protection load based license fees) would also provide a “polluter pays” mechanism, provide incentive for participants to invest in abatement activities where feasible, and encourage the surrender of credit licenses to the market for new entrants in any case where the credits held are under-utilised.

3. It is recommended that specific improvements be made to the 2012 multi round auction process in preference to the EPA's suggestion of a Vickery Auction.
- The Vickery Auction process would not provide for the assessment of the behaviour of other bidders in the formulation of price to be paid for credits required, and therefore leadbid to depressed sale price and the inability to purchase credits in some cases, and in other cases a higher price than necessary being paid for the credits obtained.
 - The Vickery Auction process relies on the premise that businesses can assign a real business value to the credits in order to place a single bid profile. The process does not allow for the situation where access to the credits is an essential part of operating the business so the bidder must obtain the credits but wants to do so for the cheapest price available based on signals from competitors in the bid process.
 - Macquarie Generation recommends the following improvements to the 2012 auction process for implementation in 2014 as a means of overcoming these issues:
 - a) No new bids after round 1
 - b) Number of credits in each band can be decreased only in subsequent rounds (cannot be increased)
 - c) Reporting after each round to show all bids (including all unsuccessful bids).

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Please refer any comments or queries to Team Leader / Water and Chemistry Kieran Scott on (02) 65420644. We look forward to working with you through 2014 as improvements are made to this important Regulation.

Yours sincerely,



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