

Hunter River Salinity Trading Scheme Credit Auction

2016 auction report

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Published by:

Environment Protection Authority
59 Goulburn Street, Sydney NSW 2000
PO Box A290, Sydney South NSW 1232
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@environment.nsw.gov.au
Website: www.epa.nsw.gov.au

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Summary

On 8 June 2016, the NSW Environment Protection Authority (EPA) held the seventh auction of 200 credits under the Hunter River Salinity Trading Scheme (HRSTS). The credits have a 10-year life span from 1 July 2016 to 30 June 2026. These credits replace the 200 credits that expired on the 30 June 2016.

The next auction will be held in 2018.

About the Auction

The 2016 Auction was run using the 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 2016 Auction was conducted in accordance with the rules detailed in the *Hunter River Salinity Trading Scheme Credit Auction – Process and Rules*. Bids were lodged online with the website address and password provided to auction participants on registration.

The auction was run over a 9-hour period from 9am to 6pm.

Twelve 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 were already participating in the HRSTS. There were no registrations from non-industry bidders.

Results

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

The auction raised \$170,359 (including GST) which is similar to income generated in the 2014 Auction.

The highest amount paid for a single credit was \$1,000 while the lowest amount paid was at the reserve price of \$250. The total number of credits sought was only marginally over the 200 credits available.

Five of the nine registered bidders obtained the number of credits they sought.

Table 1: 2016 credit auction results

Bidder	Credits allocated	cost
Anglo Coal (Dartbrook Management) Pty Limited	2	\$2,000
Mt Owen Pty Limited	5	\$5,000
Mangoola Coal Operations Pty Limited	10	\$10,000
Bengalla Mining Company Pty Limited	13	\$10,799
Coal & Allied Operations Pty Ltd	15	\$14,979
Liddell Coal Operations Pty Ltd	25	\$22,370
Ravensworth Operations Pty Limited	30	\$27,265
AGL Macquarie Pty Limited	50	\$36,185
Bulga Coal Management Pty Limited	50	\$41,761
Total	200	\$170,359

Auction and Bid Allocation Process

The total number of credits available at auction was 200 credits.

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 submits 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 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.

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 can be less than the bid price submitted by the successful bidder. Each bidder is then allocated a proportion of the 200 credits until all 200 credits are allocated.

In the 2016 Auction, registered bidders were willing to pay between \$500 up to \$8,277 per credit. The highest losing bid was \$1,000.

Revenue and costs

Net revenue from the 2016 auction (\$170,359 including GST) will be used to offset the costs of the HRSTS. Any shortfalls in funding the operating of the scheme are raised by the EPA directly from invoicing the scheme's 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
- has been 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 became active on 1 July 2016.

Feedback received

Feedback was received from one participant who sought further explanation on the process for credit allocation. There was no other feedback received from other participants.