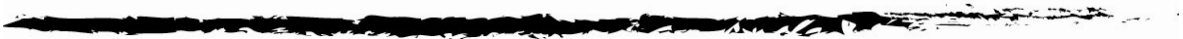




Hunter River Salinity Trading Scheme Credit Auction 2012 Auction Report



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Summary

On 4 May 2012, the NSW Environment Protection Authority (EPA) held the fifth auction of 200 credits under the Hunter River Salinity Trading Scheme (HRSTS). The credits have a 10-year life from 1 July 2012 until 30 June 2022. These credits replace the 200 credits that expired on 30 June 2012.

The next auction will be held in 2014.

About the auction

The auction was held at the Quality Inn Charbonnier, New England Highway, Singleton. Slattery Auctions Australia conducted the auction in accordance with the rules detailed in the *Hunter River Salinity Trading Scheme Credit Auction – Process and Rules*. These rules were developed in consultation with the HRSTS Operations Committee, scheme participants and other stakeholders.

Thirteen bidders representing mining and power generation facilities competed for credits. All bidders represented organisations that were already participating in the HRSTS. There were no non-industry bidders. One observer from the NSW Office of Water attended the auction.

The auction lasted for 90 minutes and 6 rounds of bidding were completed.

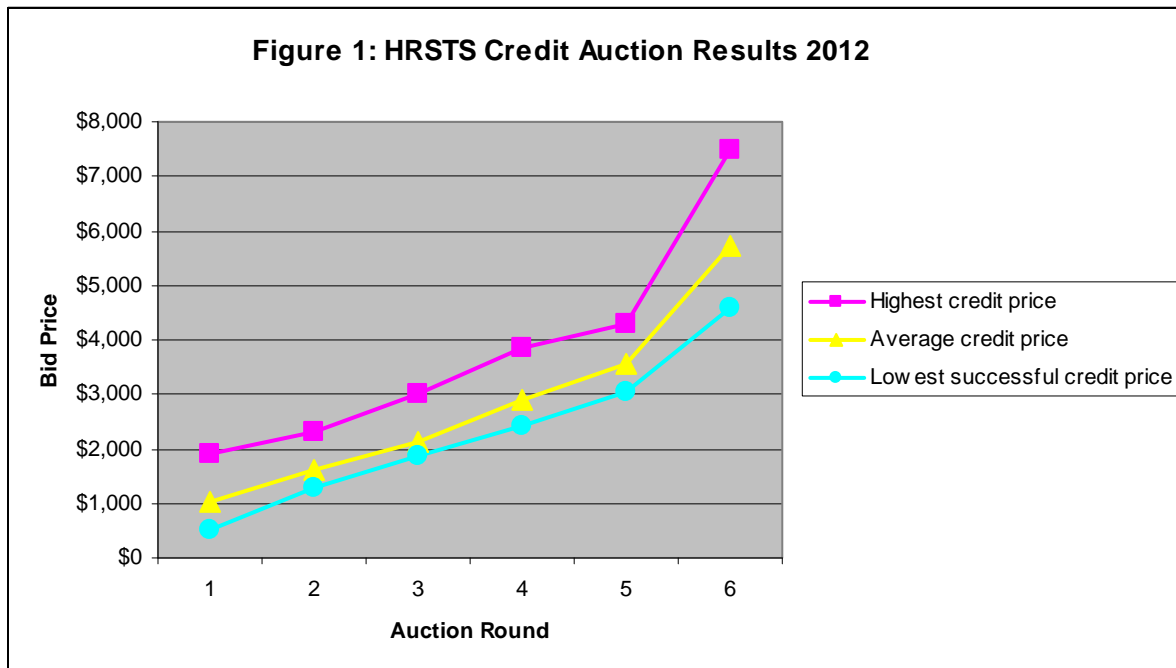
Results

All 200 credits were allocated and were distributed between 10 companies.

The auction raised \$1,147,444 (including GST). The average price paid per credit of \$5,737 increased by 358%, or more than triple the average price paid per credit at the 2010 auction. The maximum and minimum credit prices were \$7,500 and \$4,600 respectively. The credit allocation and the cost to each organisation are shown in the table below.

Bidder's organisation	Credits allocated	Total cost
Macquarie Generation	50	\$302,000
Ravensworth Operations	50	\$268,950
Coal and Allied Operations Pty Ltd	30	\$175,805
Bulga Coal Management Pty Ltd	20	\$119,810
Warkworth Mining Ltd	20	\$115,360
Liddell Coal Operations Pty Ltd	10	\$49,870
Redbank Power (Redbank Project Pty Ltd)	7	\$38,549
Hunter Valley Energy Coal Pty Ltd	6	\$27,600
Bengalla Mining Company Pty Ltd	5	\$37,500
Anglo Coal (Dartbrook Management) Pty Ltd	2	\$12,000
Wambo Coal Pty Ltd	0	\$0
Xstrata Coal – Mt Owen Complex	0	\$0
Anglo Coal (Drayton Management) Pty Ltd	0	\$0
Total	200	\$1,147,444

Figure 1 shows the highest, average and lowest successful credit prices offered in each of the 6 bidding rounds. By the last round, the difference between the maximum and minimum successful bids was \$2,900 which is 39% of the maximum bid per credit.



The rate of increase of the highest and average bids remained relatively constant throughout the auction, with a marked increase in bid price in the final round of bidding (see Figure 1). This is consistent with the 2010 auction where bidding increased at a fairly constant rate until the bid price increased more steeply in the final rounds. The rate of increase of bid price in the final round was greater than in previous auctions. It continues to be the case that bidders wait until the final round to place a large bid to secure credits, regardless of the number of rounds in the auction.

Revenue and costs

Net revenue from the auction (\$1,147,444 less expenses including GST of \$114,744.40) will be used to offset HRSTS costs.

Objectives achieved

The HRSTS auction process was designed to:

1. Distribute credits to stakeholders who place the highest 'value' on the credits.
2. Provide equitable access to credits for all bidders, including new entrants to the market.
3. Ensure that all available credits are taken up, and that the NSW Government is not left holding credits.

Against these objectives the EPA can report that:

1. The auction achieved a distribution of credits to the companies who were willing to bid enough to secure credits. Three companies were not allocated any credits because their bids were not high enough to secure them.
2. The auction was advertised in local and state newspapers and on the EPA website.

3. Invoices for the 200 sold credits have been forwarded to the successful bidders.

Feedback received

Feedback on the auction arrangements and the outcomes was sought from all auction participants and one submission was received. The table below summarises the issues and comments provided in the submission:

Issue	Comments
Auction structure	<ul style="list-style-type: none"> • The minimum starting price of \$250 is appropriate • Information regarding unsuccessful bids should also be provided to auction participants, not just the provisionally successful bidders, lowest fully allocated bid price and lowest partially allocated bid price. • No new bids should be permitted after Round 1. • Participants should only be permitted to decrease the number of credits sought in each round subsequent to Round 1. • Implementation of the single-bid auction process is not supported. • Implementation of an online auction process is not supported.

EPA's response to feedback

The 2012 auction process was the same as that adopted in 2010 with a time limit of 90 minutes duration set with no minimum number of rounds. Given the limited feedback received from participants following the 2012 auction, the EPA intends to continue to consult with the HRSTS Operations Committee and scheme participants to determine the most appropriate format for the 2014 auction.