



General auction information

The Department of Environment, Climate Change and Water NSW (DECCW) will auction 200 new Hunter River Salinity Trading Scheme (HRSTS) credits every two years. This factsheet outlines some general information about the 2010 auction, including the aims of the auction and a timetable. See *Hunter River Salinity Trading Scheme Credit Auctions – Process and rules* for information on the auction itself.

What is the Hunter River Salinity Trading Scheme?

The HRSTS was introduced to reduce salinity in the Hunter River. The scheme ensures that Hunter River salinity targets are not exceeded due to saline discharges from facilities with Environment Protection Licences. Participants may only discharge when the river is in 'high' or 'flood' flow and they must hold enough credits (in accordance with the scheme rules) to cover the amount of saline water they wish to discharge. If a participant wishes to discharge more than their credit holding permits, they must acquire credits from others who do not need to discharge into a particular discharge event.¹

The HRSTS leads the world in using economic instruments for the effective protection of waterways. The scheme has been responsible for significantly reducing river salinity during a time when there has been considerable growth in industry. The river now has less salt than many bottled mineral waters. This allows agriculture, mining and electricity generation to operate side by side, sharing the use of the river.

The HRSTS was made permanent on 1 December 2002, via the *Protection of the Environment Operations (Hunter River Salinity Trading Scheme) Regulation 2002* (the Regulation). Under the Regulation, the NSW Government must auction 200 new salinity credits every two years to replace those that are about to expire. The first auction was held on 7 April 2004. Auctions ensure that new participants are given access to credits and provide an on-going incentive for industry to invest in strategies that reduce their need to discharge saline water.

Auction objectives

The auction process was designed to:

- (a) distribute credits to those who value them most
- (b) provide equal access for all bidders, including new entrants to the market
- (c) clear all 200 credits (so the NSW Government, as much as possible, is not left with any credits at the end of the auction).

To ensure these objective are met, the auction process:

- (a) allows bidders to learn about the auction process and the market value of credits as the auction proceeds
- (b) ensures bids are genuine and reduces the possibility of bidders defaulting on a winning bid
- (c) includes safeguards against anti-competitive behaviour.

Regardless of how new credits are allocated by the auction process, participants can continue to purchase credits from other credit holders as needed after the auction, using the online trading website (which can be found at <http://hrs1.epa.nsw.gov.au/default.html>.)

¹ For a detailed explanation of how the scheme works and its requirements, see *Hunter River Salinity Trading Scheme – Working together to protect river quality and sustain economic development* (EPA 2003), which can be found on the HRSTS website at www.environment.nsw.gov.au/licensing/hrsts/

The auction set up

The auction will be run over half a day in Singleton. DECCW has commissioned a professional auctioneer to run the auction. Bids will be lodged manually on bidding forms. A multiple round auction process will be used. See *Hunter River Salinity Trading Scheme Credit Auctions – Process and rules* (www.environment.nsw.gov.au/licensing/hrsts/) for more information.

Registering – bidders and observers

Anyone wishing to bid at the auction will need to register by completing the auction registration form and returning it to DECCW.

Anyone intending to attend the auction as an observer should also register (as an observer). This will allow us to ensure that the room is big enough to accommodate observers as well as bidders.

A person cannot register to bid for credits for more than one person or legal entity. Each person may only bid for credits for themselves or the company that they have registered to represent.

Report

DECCW will prepare a report after each auction and place it on the HRSTS website. As a minimum the report will include:

- (a) the allocation of the 200 new credits at the end of the auction and on settlement
- (b) the name of any defaulters
- (c) the auction-related costs and how long it took to conduct the auction
- (d) any recommendations for the next auction, including auction design amendments.

Auction proceeds and costs

DECCW will use the auction proceeds to pay the auction costs. Any additional funds will be used to offset the costs of the HRSTS. This will reduce the annual contributions payable by scheme participants.

If the auction proceeds are less than the auction costs, the shortfall will be added to the HRSTS costs and recovered from participants via their biannual contribution.

Under the Regulation, DECCW may charge a fee to any person who buys a credit at auction in order to recover auction costs. However, we will not charge an auction registration or administration fee for the auction.

A \$250.00 per credit minimum starting bid will apply.

Timing of auction-related tasks

Task	To be completed by:
Register bidders	5 March 2010
Conduct the auction	31 March 2010
Publish the successful bidders on the HRSTS website	After the auction
Adjust the credit register once successful bidders have settled their accounts.	Before 1 July 2010