



Process and rules

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 document sets out the process that will be used and the rules that bidders must follow. For more information on the auction and trial auction see: *Hunter River Salinity Trading Scheme Credit Auctions – General auction information.*

What is the life of a credit?

Credits will have a 10-year life. Credits auctioned in 2010 will start on 1 July 2010 and expire at midnight on 30 June 2020, regardless of whether they are sold at the auction or retained by DECCW. Potential bidders should note that anyone who purchases credits at these auctions will be required to pay a HRSTS contribution for each credit they buy on top of the credit purchase price¹. Anyone holding credits on 1 July (this is when new credits will start) is obliged to contribute to the costs of running the scheme in accordance with the *Protection of the Environment Operations (Hunter River Salinity Trading Scheme) Regulation 2002* (the Regulation). This process is repeated every 2 years thereafter.

How will the auction work?

A professional auctioneer will conduct the auction using the multiple round auction process described in this document. This format allows bidders to work out the market value of credits as the auction proceeds. It also allows bidders to increase their bid a number of times before the auction closes.

Bidders must comply with the following process and rules:

- 1) Anyone that wishes to bid on the day of the auction must first register as a bidder with DECCW by completing and submitting the HRSTS auction registration form.
- 2) On the day of the auction before the bidding starts, the auctioneer will give each registered bidder an identification number (e.g. BD1).
- 3) Successful bidders will pay what they bid for their credits (their final successful bid(s)), rather than all bidders paying the same price for all credits (e.g. the lowest successful price). A reserve price will not be set.
- 4) All bidders must bid in the first round. See point 10 for information on other rounds. The minimum starting bid is \$250.00.
- 5) During each round, each bidder may lodge up to 3 bid(s) according to the following rules:
 - a) Bids must be lodged on a correctly filled-out bid form signed by the registered bidder.
 - b) All bids must state the amount of credits the bidder wants and the price they will pay for each credit (e.g. 10 credits at \$500 each) (noting that only 200 credits are available).
 - c) Bids must be in whole credits and may range from 1 to 200 credits. There will be no cap on the amount of credits a single bidder can purchase. (Note: only 200 credits are available.)
 - d) Bids must be in whole dollars.. After the first round, new bid prices must be higher than the 'lowest partially allocated bid price' from the previous round (see point 8 and 10 for more information).

1. Credit holders are invoiced in January and July. DECCW will proportion HRSTS costs between non-DECCW credit holders as per clause 75 of the Regulation. The Regulation provides that DECCW is not required to pay a contribution for any credits it holds.

- e) All bids must be genuine and cannot be withdrawn. However, the price of a provisionally successful bid can be increased (amended up) in the next round. The bid quantity cannot be changed. This allows the bidder to reduce the chance of their bid being knocked out but ensure that they do not end up with twice as many credits as they want.
- 6) The auctioneer will give bidders 5 minutes per round to lodge their bid forms. Bidders will register their bid using the time and date stamp provided, and lodge their bid with the auctioneer who will check that the bids are valid. Incomplete or invalid bid forms (e.g. the bid quantity is more than 200) will be returned to the bidder. The auctioneer will give a 1-minute warning when each round is about to close.
- DECCW may consider suspending the auction for a short time if a bidder needs to contact their organisation to seek approval to increase their spending budget. This is at the discretion of the auctioneer, and will not occur more than once per bidder, and will not be allowed to unreasonably delay the auction.
- 7) At the end of each round, the auctioneer will sort bids from highest price to lowest price to produce a bid stack. The bid stack might look like table 1a below.

Table 1a: Bid stack at the end of a round²

Bidder ID	Price offered	Number of credits wanted	Cumulative number of credits wanted by all bidders starting from the highest bid	Provisional credit allocation
BD1	\$900	50	50	50
BD4	\$885	65	115	65
BD1	\$840	30	145	30
BD7	\$825	45	190	45
BD2	\$820	16	206	5 (partially filled) – marginal bid
BD6	\$820	10	216	5 (partially filled) – marginal bid
BD3	\$810	20	236	0 – no credits this round

Note: these are hypothetical prices only.

The top bidders that collectively want 200 credits will be the provisional successful bidders. At the end of the round, the auctioneer will announce the following information (by for example projecting table 1b onto a wall):

- bidder identification numbers, the prices offered and number of credits they have been provisionally allocated (columns 1, 2 and 5 from table 1a above)
- the lowest fully allocated bid price and the lowest partially allocated bid price.

Table 1b: Information reported at the end of a round (from the above example).

Bidder ID	Price offered	Provisional allocation of credits
BD1	\$900	50
BD4	\$885	65
BD1	\$840	30
BD7	\$825	45
BD2	\$820	5
BD6	\$820	5
BD3	\$810	0
Total credits allocated (provisional)		200
Lowest fully allocated bid price		\$825
Lowest partially allocated bid price		\$820
Lowest valid bid price for the next round		\$821

Note: these are hypothetical prices only.

² All credit prices in this paper are examples only. DECCW does not know how bidders are likely to value credits during the 2010 auction.

Each bidder will be able to see how many credits they have won (provisionally) at the end of each round. They will also be able to see what they need to bid to secure credits. However, they will not know who the other successful bidders are.

- 8) If there are not enough credits to meet all marginal bids the auctioneer will allocate the remaining credits 1 at a time to each marginal bidder (up to their bid request) until all the credits are allocated. In the example above, 10 credits will be distributed between bidders BD2 and BD6, who will receive 5 credits each. These are marginal bids as they both offered the same price and they collectively straddle the 200-credit line (in column 4).

In the same example, if BD2 offered more than \$820 (say \$821) then BD2 would be the only marginal bidder and would be provisionally allocated the remaining 10 credits. In the event of a tie for the final credit, preference will be given to the bidder who lodged their bid first.

- 9) The auctioneer will then announce the start of the next round and invite bidders to increase their bids to ensure that they get the number of credits they want. With the exception of round 1, new bids must be higher than the lowest partially filled bid price from the previous round. Bids cannot be withdrawn. However, the price of provisionally successful bids can be amended up for the next round (see point 5e).

If a bidder is allocated credits (provisionally) they will not be required to increase their bid price in the next round. However, if a bidder is not allocated credits (provisionally) in a round, the bidder must bid in the following round or they will lose the right to bid in subsequent rounds.

- 10) The auction will have a time limit of ninety (90) minutes regardless of the number of rounds. Rounds will continue until:
 - a) there are no new bids (that is, until bidders are happy with their allocation of credits or are not prepared to increase their bid to secure more credits), or
 - b) the auction has been going for ninety (90) minutes. However, if a bidder places a large bid in the last round that knocks out 30% or more of bidders, the auction will go for another 2 rounds to give all bidders another opportunity to secure the amount of credits they want.

The auctioneer will announce when there have been no new bids to check that bidders do not want to place additional bids.

- 11) Once there are no new bids (or the time limit has been reached), the auctioneer will close the auction and announce the names of successful bidders and their final allocation of credits.

What will happen after the auction?

After the auction DECCW will issue a tax invoice to successful bidders, who will have 30 days to settle their accounts. Successful bidders will pay what they bid for their credits, rather than all bidders paying the same price for all credits.

All successful bids must be paid. That is, if a bidder has 2 successful bids they must pay for both bids. DECCW will issue a single invoice to each successful bidder. For example, if table 2 below represents the final allocation of credits, bidder BD3 would pay for 46 credits (40 at \$650 each and 6 at \$579) and would receive an invoice for \$29,474.

Table 2: Final credit allocation

Bidder ID	Price offered	Number of credits wanted	Cumulative number of credits wanted by all bidders starting from the highest bid	Credit allocation at the end of the auction
BD1	\$710	50	50	50
BD3	\$650	40	90	40
BD2	\$630	60	150	60
BD4	\$590	44	194	44
BD3	\$579	6	200	6

Note: these are hypothetical prices only.

All credit prices will include Goods and Services Tax (GST). DECCW will remit the appropriate amount of GST to the Australian Taxation Office (\$2,679.45 in the example above).

After the auction, DECCW will ensure that all successful bidders are registered on the scheme's website as credit traders. Under the regulation, credits may only be transferred from the NSW Government to a registered credit trader. DECCW will adjust the credit register once all successful bidders have settled their accounts. This will be before 1 July.

What if a bidder defaults?

If anyone defaults on a successful bid (does not settle their account by the due date), DECCW will offer the defaulter's credits to the next highest bidders on the bid schedule who missed out at the end of the auction, at the price they offered. Defaulters will not be allowed to purchase any additional credits at a lower price. For example in table 3, if BD1 defaulted on their bid of 26 credits at \$4100 each, they would not be allowed to purchase the bid that they missed out on (20 credits at \$750 each). Their 26 credits would be offered to the next highest bidder BD2 at \$500 each.

Table 3: Credit allocation at the end of the auction and after the defaulter's credits have been reallocated

Bidder ID	Price offered	Number of credits wanted at the auction end	Cumulative number of credits wanted by all bidders starting from the highest bid	Credit allocation at close of auction	Credit allocation after the defaulters credits are reallocated
BD1	\$4100	26	26	26	0
BD6	\$3750	40	66	40	40
BD4	\$3500	40	106	40	40
BD3	\$2500	50	156	50	50
BD5	\$1900	44	200	44	44
BD1	\$750	20	210	0	0 – will not be offered the defaulted credits
BD2	\$500	40	250	0	26 – partially filled
BD6	\$450	20	270	0	0

Note: these are hypothetical prices only.

DECCW will also:

- a) publish the defaulter's name in the auction report, which will be published on the HRSTS website
- b) consider requiring a bond (size to be determined by us) for the next auction from any bidder that defaults on a successful bid.

What happens to credits that not sold at the auction – residual credits?

DECCW will sell any residual credits (any credits that are not sold after successful bids have been settled), at the highest settled price from the auction. This will ensure that bidders do not withhold bids in an attempt to wait until the auction is over to obtain any remaining credits at a lower price. DECCW will sell residual credits at this price on a first-come-first-served basis up until 6-months before the next auction (e.g. December 2011 for the credits issued in 2010).

Any credits that DECCW still holds at that time will be auctioned along with the next batch of 200 new credits (e.g. the 2012 auction for any remaining credits issued in 2010). Note that, any 2010 credits that are re-auctioned at the 2012 auction will still expire on 30 June 2020. That is, the life of the credit is 10-years starting 1 July 2010 (the year it is first auctioned) and is not affected by when the credit is transferred from DECCW to the new owner.