



Environment,
Climate Change
& Water

Hunter River Salinity Trading Scheme Credit Auction 2010 Auction Report

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Summary

On 31 March 2010, the NSW Department of Environment, Climate Change and Water (DECCW) held the fourth auction of 200 credits under the Hunter River Salinity Trading Scheme (HRSTS). The credits have a 10-year life that begins on 1 July 2010 and ends on 30 June 2020. These credits will replace the 200 credits that expired on 30 June 2010. The next auction will be held in 2012.

Where and who

The auction was held at the Quality Inn Charbonnier, New England Highway, Singleton. Slattery Auctions Australia conducted the auction in accordance with the auction rules as 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.

Eleven bidders, representing mining and power generation facilities, competed for credits. The majority of bidders represented organisations that were already participating in the HRSTS. Two companies present were not previous members of the HRSTS; however, they were companies associated with existing coal mine facilities. There were no registrations from non-industry bidders. Two community representatives, as well as representatives from the NSW Officer of Water and the mining industry, attended the auction as observers.

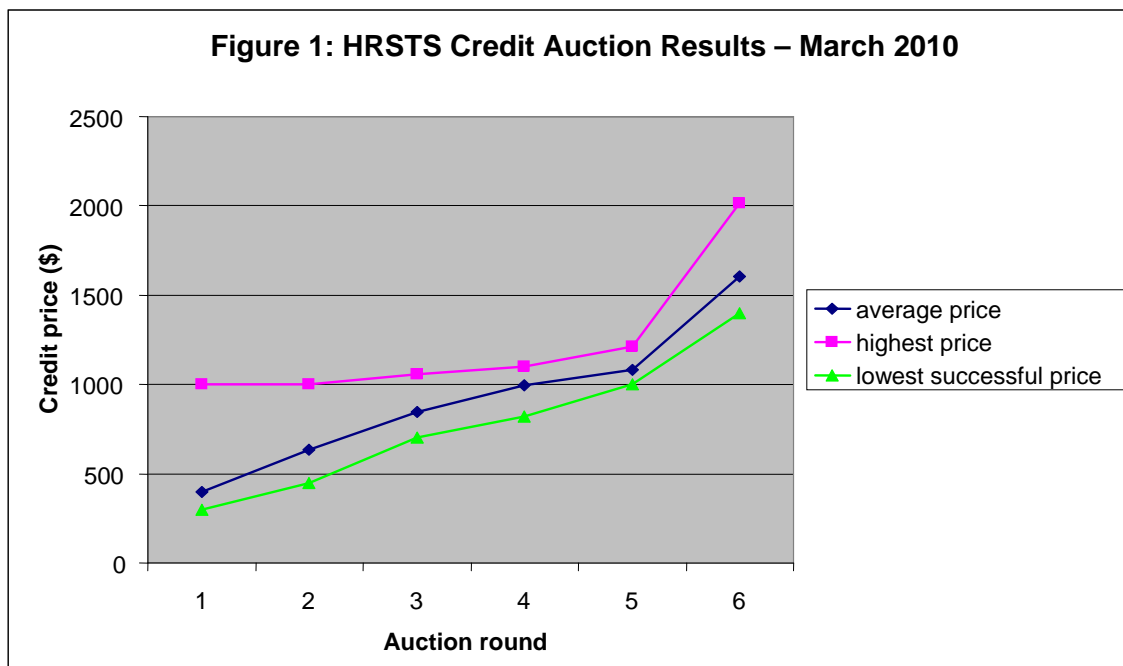
Results

The auction continued for the full 90-minute timeframe and six rounds of bidding were completed in that time. All 200 credits were allocated at the auction and the credits were distributed between 10 companies.

The auction raised \$320,539. The average price paid per credit was \$1603, an increase of approximately 69% on the 2008 auction results. The maximum and minimum credit prices were \$2018 and \$1402, respectively. The credit allocation and the cost to each organisation are shown in the following table.

Organisation	Credits allocated	Total cost
Macquarie Generation	13	\$18,226
Ravensworth Operations Pty Limited	15	\$22,115
Coal & Allied Operations Pty Ltd	30	\$44,610
Mount Thorley Operations Pty Limited	70	\$112,130
Liddell Coal Operations Pty Limited	0	\$0
Bulga Coal Management Pty Limited	10	\$17,230
Xstrata Mt Owen Pty Limited	3	\$4,218
Mt Arthur Coal Pty Limited	10	\$15,230
Anglo Coal (Dartbrook Management) Pty Limited	5	\$7,415
Redbank Project Pty Limited	14	\$25,935
Wambo Coal Pty Limited	30	\$53,430
Total	200	\$320,539

Figure 1 below shows the highest, average and lowest successful credit prices offered for each of the six rounds. By the last round, the difference between the maximum and minimum successful bids was \$616, which was 30.5% of the maximum bid per credit.



The rate of increase in the highest and average bids remained relatively constant throughout the auction until the final round. There was a marked increase in bid price in the final round of bidding (see Figure 1). This was consistent with the 2008 auction where bidding increased at a fairly constant rate until the bid price increased more steeply in the final rounds.

The decreased number of bid rounds (six in 2010 compared with 10 in 2008) does not appear to have changed this pattern of bidding. The rate of increase of bid price in the final round was greater than in previous auctions. Bidders continued to 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

Revenue from the auction will be used to offset the HRSTS costs for the 2010/2011 scheme year.

Objectives achieved

The HRSTS auction process is designed to:

- distribute credits to stakeholders who place the highest 'value' on the credits
- provide equitable access to credits for all bidders, including new entrants to the market
- ensure that all available credits are taken up (NSW Government not left holding credits).

To ensure these objective are met, the auction process:

- allows bidders to be advised of the market value of credits as the auction proceeds
- ensures bids are genuine and reduces the possibility of bidders defaulting on a winning bid
- includes safeguards against anti-competitive behaviour (Department of Environment and Conservation 2003).

Against these objectives DECCW can report that:

- all 200 credits were taken up and invoices have been forwarded to the successful bidders
- there was no apparent anti-competitive behaviour

- the auction distributed 130 credits between companies that are already HRSTS members and 100 credits to two new companies, who are associated with existing coal mines
- one company only received a partial allocation of the credits it was seeking to purchase; this company strongly indicated its dissatisfaction with the outcome of the auction and indicated that it would have paid more for credits if the auction had continued
- one company was not allocated any credits at auction; this company also expressed disappointment with the auction outcome.

Feedback received

Feedback on the auction arrangements and outcomes was sought from all auction participants and four submissions were received.

The table below summarises the issues and comments provided in the submissions:

Issue	Comments
Auction structure	<ul style="list-style-type: none"> • disappointment with time delays because of initial spreadsheet errors • time delays between rounds should not be allowed – there should be a ‘stop the clock’ provision so auction time is not lost • the minimum starting price of \$250 is appropriate • six rounds of bidding is not enough for bidders to understand the auction process and ensure a robust auction process; the auction should have a set number of rounds • information regarding unsuccessful bids should also be provided to auction participants – not just the previously successful bidders, lowest fully allocated bid price and lowest partially allocated bid price • aim of auction achieved – support review of the auction process as a continuous improvement approach • the professional auctioneer is an unnecessary service because the current auction format could be administered by a nonprofessional • improvements in technology would be welcome – an electronic platform for the auction may be more appropriate • the auction was well run.
Auction rules	<ul style="list-style-type: none"> • the definition of ‘knocked out’ in the auction rules is unclear and confusing • there is no provision in the action rules for appeal.
Auction aims	<ul style="list-style-type: none"> • credits were not distributed to bidders who ‘valued them most’; this comment was made by a bidder who did not bid high enough in the final round but was prepared to bid higher • the auction outcome reflected the market; bidders who bid high prices for their credits were clearly prepared to ensure they received their target credit allocation • the auction process was fair.

DECCW's response to feedback

The 2010 auction was reduced to 90 minutes duration with no minimum number of rounds, following feedback from the 2008 auction that the auction process was too long (at 10 rounds and 2 hours 48 minutes). Two auction participants at the 2010 auction were strongly of the view that six rounds of bidding were insufficient, in terms of understanding the auction process and price discovery.

Feedback indicated that the auction process is complex and should be reviewed. DECCW intends to coordinate a review of the auction process prior to the 2012 auction. The review will focus on simplifying the auction process with a view to moving to an online auction format for future auctions.

It should be emphasised that the auction is only one way in which credits can be acquired. The HRSTS online credit register allows members to trade credits as they are needed for the discharge of saline water.

Reference

1. Department of Environment and Conservation (2003) Proposal – Auctioning Hunter River Salinity Trading Scheme Credits.