

6 April 2010

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

**National Gas Amendment (Prioritisation of Ties Controlled Withdrawal Bids) Rule 2010
Draft Rule Change Submission
Project Number GRC0001**

Dear Sirs

Thank you for the opportunity to provide a submission on the above draft Rule determination of which Infratil Energy Australia Ltd (IEA) is fully supportive. IEA's reasons for this position are set out below.

Relevance of AMDQ

The Commission has done well to identify and articulate the gross weaknesses in the AMDQ component of the Victorian gas market design (Section 3.1.2 of the Draft Determination). IEA's experience supports these observations and notes that, after nearly 3 years of operation, the "market" in AMDQ/AMDQ Credits is a proven failure.

AMDQ was intended to be a pseudo-transportation right providing price signals for new transmission; with an immaterial amount of trading this has just not occurred.

The Commission has rightly identified that AMDQ has a limited role thereby supporting the Rule change proposal would only serve to elevate the relevance and status of this meaningless product.

Trading in AMDQ

There are no barriers to trading AMDQ Credits or Tariff D AMDQ, just an unwillingness of holders to offer.

However, IEA has been advised by AEMO that **Tariff V AMDQ cannot be traded.**

A Barrier to Entry

In IEA's experience, lack of access to and/or withholding of AMDQ/AMDQ Credits has proven to be a significant barrier to market entry and growth, notwithstanding the optimistic contentions in section 3.1.4 of the Draft Determination (that it "could promote improved and more innovative risk management from those parties that do not hold AMDQ/AMDQ credits.").

IEA would contend that, in fact, the sole role of AMDQ has always been as a barrier to entry and that this was fully understood when the market review was undertaken in 2007; further, this was exacerbated through requiring "injection dependency" to validate AMDQ (see below).

By extension, IEA has sympathy with the Commission's risk concern that "AMDQ holders with market power could frustrate competitive gas flows". This has been seen to occur in Victoria when AMDQ holders priced LNG at levels inconsistent with a competitive market.

Injection Dependency

IEA would contend that the lack of AMDQ trading has resulted in gas being inefficiently allocated especially where there is injection dependency.

If a participant is required to inject gas for some other reason than commodity supply, then this makes a balancing market in commodity only rather pointless. The spot market is designed for trading commodity imbalances; however, a participant cannot rely upon this market for purchases if there remains risk of congestion uplift. The raison d'être of the spot market has therefore been made irrelevant by AMDQ and injection dependency.

Curtailement Provision

IEA notes that the Draft Determination does not discuss the treatment of Withdrawal AMDQ in the event of curtailment and/or a threat to system security in the Victorian gas and/or electricity markets. Could the Commission please clarify this point?

Yours faithfully

A handwritten signature in black ink, appearing to read 'D. S. Flukes', written in a cursive style.

Darryl S Flukes
Chief Executive